

PATTON, BOGGS & BLOW

2550 M STREET, N.W.
WASHINGTON, D.C. 20037-1350
(202) 457-6000

FACSIMILE: 457-6315

TRT TELEX: 197780

250 WEST PRATT STREET
BALTIMORE, MARYLAND 21201
(410) 659-5600

500 NCNB BUILDING
101 WEST FRIENDLY AVENUE
GREENSBORO, NORTH CAROLINA 27401
(919) 273-1733

700 RALEIGH FEDERAL SAVINGS
BANK BUILDING
RALEIGH, NORTH CAROLINA 27602
(919) 832-4111

SUITE 1975
1660 LINCOLN STREET
DENVER, COLORADO 80264
(303) 830-1776

501 BRICKELL KEY DRIVE
COURVOISIER CENTRE I
MIAMI, FLORIDA 33131
(305) 375-8484

2626 COLE AVENUE
SUITE 300
DALLAS, TEXAS 75204
(214) 871-2141

February 26, 1993

WRITER'S DIRECT DIAL

(202) 457-5282

BY HAND

Peter Raack, Esq.
Assistant Regional Counsel
United States Environmental
Protection Agency
Region IV
345 Courtland Street N.E.
Atlanta, GA 30365

Re: Carrier Air Conditioning Site, Collierville, TN

Dear Mr. Raack:

Please make this letter a part of the Administrative Record for the above-referenced site, as it contains Carrier Corporation's response to Section XXIII.A of the unilateral administrative order (UAO) issued by EPA Region IV to Carrier concerning the above-referenced site on February 11, 1993, with an effective date of February 16, 1993. As we have previously made clear to Region IV, Carrier intends to comply with all lawful provisions of the UAO, and intends to carry out the necessary engineering work to remedy this site, as explained more fully in my letter of February 22, 1993. In our meeting today, we hope to discuss issues arising in connection with implementation of this work so that we can clarify EPA's intentions about various aspects of the work, and its relation to the DQO process.

By this letter, Carrier is making a preliminary response to EPA's request for financial assurance, as provided in Section XXIII.A. of the UAO. In Carrier's view, EPA does not have the legal authority to require such financial assurance in a UAO issued pursuant to section 106 of the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). Section 106 makes no mention of EPA powers to compel the provision of.



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financial assurances; the statutory definitions of the terms "remedy," "remedial action," "response," and "response action," make no mention of any such financial assurances. CERCLA, §§ 101(24), (25).

Neither does the financial responsibility section of CERCLA, § 108, authorize the unilateral imposition of such a financial assurance requirement, addressing as it does EPA regulations governing financial responsibility for certain classes of vessels and facilities handling hazardous substances in the course of their business. Although this provision has been part of CERCLA since 1980, EPA has not yet promulgated any regulations, now more than 12 years after enactment. Where Congress requires EPA to issue regulations in order to exercise authority over financial responsibility requirements, and specifies the procedures and standards to calculate such financial responsibility, including consideration by EPA of the payment experience of the Fund and commercial insurers, EPA cannot ignore that statutory language and unilaterally impose a financial assurance requirement.

Despite Carrier's view of EPA's legal position as unsupported, Carrier is providing, as an accommodation to EPA, a copy of the most recent annual report of United Technologies Corporation, for calendar year 1991. When the 1992 Annual Report is printed, a copy will be provided you. United Technologies is one of the largest manufacturing companies in the United States, and ranks in the Fortune 50. It had sales in 1991 of \$20,480,000,000.00. UTC Annual Report, p. 5. This annual report is prepared in order to satisfy the stringent financial and accounting standards imposed on publicly-traded companies by the U.S. Securities and Exchange Commission (SEC).

As you are aware, Carrier is a wholly-owned subsidiary of UTC, and has its financial results combined with other UTC subsidiaries and divisions in this report. The UTC annual report shows that Carrier is the largest manufacturer in the world of heating, ventilating, and air conditioning (HVAC) equipment. UTC Report, p. 7. In this capacity, Carrier had sales in 1991 of \$3.8 billion. Id. p. 24. Carrier accounted for 47% of the revenues of the building systems sector of UTC; the other 53% was accounted for by Otis Elevator. Id. Roughly half of Carrier's revenues and sales are derived internationally, so that cyclical problems in the international and domestic markets will tend to offset each other. Id. pp. 7, 9. The building systems sector of

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UTC had identifiable assets in 1991 of \$4,446,000,000, divided between Otis and Carrier. Id. p. 50.

Carrier has invested heavily in research and development to accommodate the changeover in air conditioning equipment from CFC's to non-CFC's. Id. p. 17. Carrier appears to be materially ahead of its competitors in compressor technology as a result. Id. Carrier reduced its overhead substantially by closing several U.S. plants in 1991, including one in Knoxville, Tennessee, as well as several overseas plants. Id. p. 23.

UTC addressed environmental remediation activities and costs in detail in 1991, taking a \$256 million pre-tax charge in the fourth quarter to reflect such costs. Id. After this substantial charge and much larger charges of \$1.275 billion related to the corporate restructurings and plant closings were accounted for, the building systems portion of UTC -- consisting of Carrier Corporation and Otis Elevator -- still posted a slight profit of \$4 million. Id. Without accounting for these charges, the profit for the two companies combined was \$327 million; profits for the two in 1990 and 1989 were \$425 million and \$458 million, respectively. Id.

The annual report discusses environmental matters further, reporting the expenditure for remediation activities in 1991 of \$57 million, and of \$48 million in 1990. Id. p. 28. The Annual Report goes on to state that:

The nature of the above matters makes it difficult to estimate the exact timing and ultimate amount of future environmental expenditures (remedial and otherwise). In addition, the Corporation has instituted legal proceedings against its insurers asserting insurance coverage for remediation activities. These proceedings are expected to take several years. No prediction can be made as to the outcome of these proceedings. Nonetheless, the Corporation believes that the level of environmental capital and remedial expenditures necessary to comply with present regulations governing environmental protection will not have a material effect upon its capital expenditures, competitive position, financial position or results of operation.

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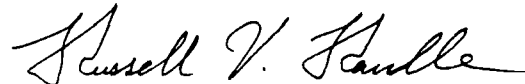
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Id. p. 28. (emphasis supplied).

Carrier believes that this financial information should be adequate to assure EPA and others that there is no realistic basis for concern that Carrier will be financially unable to perform the remedial work specified in the Record of Decision (ROD). That work, estimated by the ROD to cost between \$5.7 million and \$7.9 million is about 2/10 of one percent or less of Carrier's 1991 revenues of \$3.8 billion. In addition, much of this work has already been completed, including the installation of the treatment system at the City of Collierville wells (at Carrier's expense) and the soil vapor extraction (SVE) system in the north lagoon area. This leaves substantially less than \$7.9 million in work left to be done, and much of this is long-term operation and maintenance over as much as twenty years time. It seems evident that EPA has little concern about Carrier's ability to perform this work; otherwise EPA would have issued an order to the City of Collierville as well as to Carrier, something EPA did not do here.

We believe that this information should be satisfactory to EPA under any reasonable construction of the term financial assurance. If, however, you should have questions about this matter, or desire specific additional information, please let me know.

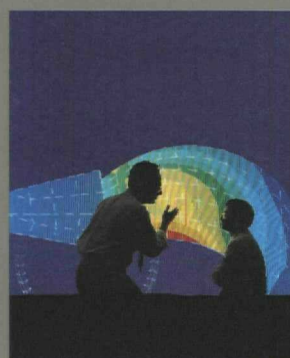
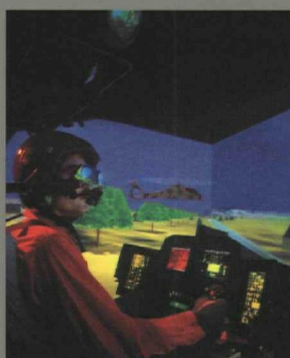
Sincerely,



Patton, Boggs & Blow
Counsel to Carrier Corporation
By Russell V. Randle

Enclosure: 1991 UTC Annual Report

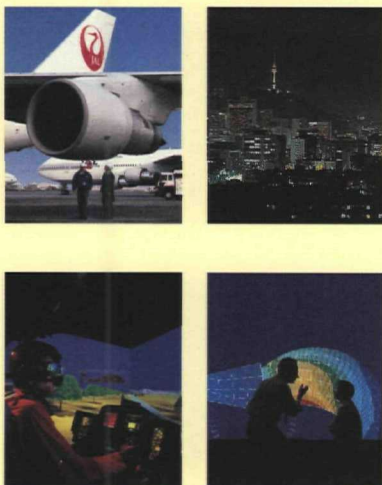
cc: Ms. Beth Brown, RPM



United Technologies

UTC provides a broad range of high-technology products and support services to customers in the aerospace, building and automotive industries worldwide. The corporation's best-known products include Pratt & Whitney aircraft engines, Otis elevators and escalators, Carrier heating and air conditioning systems, Sikorsky helicopters, Hamilton Standard aerospace systems, Norden defense systems, and UT Automotive components and systems. United Technologies also supplies equipment and services for the U.S. space program.

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Strict attention to product support and customer satisfaction throughout UTC is paying off in new-business awards and aftermarket work.

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United Technologies is making strategic investments in all its core businesses to maintain its strength as one of the world's leading industrial companies.

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The Comanche aircraft and F119 engine feature all-new, state-of-the-art technology that should carry UTC's defense business well into the 21st century.

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Going Forward

UTC's 1991 operating results were substantially lower, especially compared to the previous four years of increased profits and earnings per share – three of them record years: After a fourth-quarter pre-tax restructuring charge of \$1.275 billion and a \$256 million pre-tax charge to increase environmental reserves, we posted a loss of \$1.02 billion, or \$8.91 a share, for the year, compared with income of \$751 million, or \$5.53 a share, in 1990.

A slumping global economy, the Gulf War, a shrinking U.S. defense budget and increasingly aggressive competition worldwide had a severe impact on our operating results. The economy was, and still is, the major problem facing UTC – one that many predict will take a long, tortuous road to eventual recovery.

Airline traffic, building construction and U.S. auto production were down sharply during the year, marking the first time that all three of our core commercial markets simultaneously have been at the bottom of their industry cycles. Meanwhile, already heated global competition became even more intense as companies around the world fought for their share of shrinking markets.

Sales of commercial aircraft engine spare parts, a lucrative aftermarket business that normally accounts for a significant portion of Pratt & Whitney's revenues and profits, were especially hard hit in 1991. Sales in this area fell 25 percent, primarily due to recessionary pressures on an ailing airline industry that were further aggravated by the war in the Persian Gulf and the resulting downturn in air travel.

UTC's military business, which accounted for 19 percent of our total sales in 1991, suffered as well. The declining U.S. defense budget shrank even more rapidly as the Cold War thawed during the course of the year. We, of course, welcome the new era of world

peace, but government reassessments of the military threat from the former Soviet Union – and efforts to reduce the U.S. deficit – will continue to have an impact on our defense-related businesses for the foreseeable future.

Downturns in North American construction and vehicle production negatively affected our commercial and industrial businesses. U.S. housing starts fell to their lowest level since World War II, and nonresidential construction dropped to its lowest level since 1967. Car and light truck production continued its erosion to the lowest vehicle build in nine years at just under 10.5 million units.

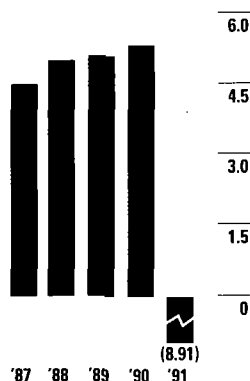
Addressing the Business Environment

Given the rapidly changing circumstances, it became clear last summer that we needed to thoroughly reexamine the size, scope and practices of all our businesses. We recognized that we had excess manufacturing capacity throughout the corporation that needed to be addressed more aggressively. And we recognized the need to accelerate our response to the rapidly changing business environment through quality and productivity improvements ranging from product design to engineering and manufacturing.

It also was clear that we needed to cut our cost structure even more dramatically to remain competitive. While we had already taken many tough actions to deal with the problems confronting us, we are now moving more vigorously to cut spending and raise our level of profitability.

Earlier this year, we announced details of a major restructuring plan and a corporation-wide cost reduction program that will yield more than \$1 billion in annual savings by 1994. To that end, we took a \$1.275 billion charge that includes \$423 million for employee severance and \$852 million for plant clo-

**Earnings (Loss)
per Common Share**
\$ per Share



Robert F. Daniell, Chairman and Chief Executive Officer, in the control room of Pratt & Whitney's test facility in Florida, where the F119 engine for the F-22 Advanced Tactical Fighter is undergoing full-scale development.



asures and consolidations, as well as for moving production and redesigning manufacturing processes.

We have begun a transformation of UTC more profound – and more potent – than any single event in the corporation's history. I want to emphasize that this is not just the kind of restructuring where the workforce is cut and some plants are closed. This is a comprehensive program – a culmination of the changes we have effected over the last year – that will fundamentally change the way we operate. The revamped United Technologies that will emerge as a result of these changes will be a far different company – leaner, tougher minded, more competitive.

The transformation under way reflects not only the realities of today's marketplace, but also the enormous potential of tomorrow's. Our strategic plans will take full advantage of UTC's powerful aerospace capabilities. They will accelerate the global growth and increase the profitability of two of our market-leading businesses, Otis and Carrier, whose full potential can hardly be overestimated. More important, they will focus the entire corporation on new, higher, but

achievable goals that will allow us to get out in front of the market conditions facing us.

These cost-cutting efforts will reduce UTC's workforce by nearly 14,000 jobs around the world, or seven percent of our total employment, saving some \$440 million annually. Most of the reductions are being accomplished through severance and enhanced early retirement programs.

Worldwide, we will close or consolidate more than 100 facilities, reducing our overall manufacturing capacity by 7.9 million square feet, or 16 percent, and saving \$260 million a year. In addition, we are making improvements in product design, engineering and manufacturing processes that will save about \$380 million annually by 1994.

Separately in the fourth quarter, we more than doubled our reserves, to \$512 million, for environmental clean-up activities. We are determined to be among the most environmentally responsible companies in the United States, focused not just on remediation, but also on making our products and processes more environmentally sound and energy efficient.

UTC Financially Well-Positioned

We are financially well-positioned to tackle these programs. Our vigorous efforts to improve asset management and conserve cash in 1991 resulted in net debt reduction of \$491 million for the full year, and our working capital turnover rate continues to rise.

Although 1991 was a disappointing year from an earnings standpoint, we continued to make excellent progress on a number of business fronts. Early in the year, for example, the U.S. Air Force selected Pratt & Whitney's new F119 engine to power the F-22 Advanced Tactical Fighter, and Pratt's F100-PW-229 engine was chosen to power half of the F-16 aircraft the Air Force will purchase in 1992. The F100-PW-229 also was selected to power the Republic of Korea Air Force's new fleet of F-16s, which greatly enhances our competitive position for future fighter engine programs in international markets.

Another big win for us in 1991 was the U.S. Army's Comanche helicopter program. Despite recently proposed defense budget cuts that would stretch out development and defer full-scale production of the Comanche, the R&D phase of this program will put

Sikorsky on the leading edge of technology that likely will provide additional business opportunities in the future. Meanwhile, production of Sikorsky's core product line, the BLACK HAWK and SEAHAWK, continues strong.

We've been successful in our corporation-wide initiatives to improve product support activities for both old and new customers, as well as former customers who have returned to do business with us. For example, Japan Airlines, which had switched to another engine-maker four years ago, placed a significant order in 1991 for Pratt's PW4000 engine to power a new fleet of MD-11 aircraft. That was followed by All Nippon Airways' choice of the PW4000 for their new Boeing 777s after many years of ordering a Pratt competitor's engines.

There were positive developments at Norden as well. In 1991, Norden and the government of Israel signed an agreement to modify the contract for the Multi-Mode Radar System, largely putting behind us the past uncertainty that existed regarding the company's development efforts on this program. And the U.S. military rushed two Joint-STARS radar units, which were still in the development stage, into service in the Gulf War, where their performance was highly praised by field commanders.

We've broadened and strengthened a number of international collaborations, which form a strategic cornerstone for the business successes of tomorrow. The global marketplace is critically important to all our businesses, and we continue to pursue opportunities wherever they present themselves. Otis, our most global company, made great strides in 1991 to enhance its leadership position worldwide and was highly successful in penetrating emerging and rapidly growing markets in Eastern Europe and the Asia-Pacific region.

The articles on the following pages of this report expand on some of the successes of the year, while explaining the critical moves we are making to set United Technologies on a course that will enhance its long-term investment value. Instead of our traditional division-by-division review of operations, this report focuses on many of the priority issues and initiatives that are shared throughout the corporation.

The cost-reduction program now in place will position UTC for renewed growth and improved profit-

ability during all economic cycles. It is designed to yield the kind of financial results our shareowners expect and deserve. We are determined to meet their expectations. As a measure of confidence that we can deliver on our commitment, we have established as an objective for the corporation a return on shareowners' equity of 18 percent by 1994 – an objective that assumes only a gradual improvement in the economy. This target is based on each of UTC's major operating units achieving a return on net operating assets of at least 25 percent a year.

The past year, of course, was a difficult one for our employees. For many, it has meant the severing of long ties of service and loyalty to the company. But if we had not taken these painful steps now, the actions we would have to take later would be even more damaging to our workforce.

We deeply appreciate the efforts of all our employees who continue, as they have in the past, to apply their talent and energy daily. It is this, more than anything, that will maintain UTC's position as one of the world's leading industrial companies. Going forward, we remain focused on the performance levels United Technologies must achieve to provide an attractive, sustainable return to our shareowners.

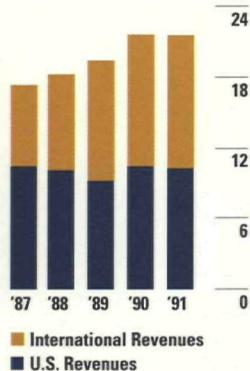
At the February meeting of our board of directors, George David was elected president and chief operating officer and a director of United Technologies. George has served with distinction in a number of key executive positions in his 17-year career, most recently as an executive vice president of United Technologies and president of our Commercial/Industrial sector. He brings great strength to the Office of the Chief Executive, and I am delighted to have him join me in that office.

Sincerely,

Robert F. Daniell

Robert F. Daniell
Chairman and Chief Executive Officer
February 24, 1992

Global Growth
\$ Billions



Financial Summary

In Millions of Dollars (except per share amounts)

	1991	1990
UTC's Performance In Brief		
Sales	\$20,840	\$21,442
Net income (loss)	(1,021)	751
Earnings (loss) per share:		
Primary	(8.91)	5.91
Fully diluted	(8.91)	5.53
Dividends per common share	1.80	1.80
Yearend business backlog	20,700	20,875
Research and development	1,140	1,026
Capital expenditures	1,048	1,200

December 31,

	1991	1990
Other Financial Information		
Assets		
Current assets	\$ 8,931	\$ 9,012
Fixed assets—net	4,607	4,396
Other	2,447	2,510
Liabilities		
Current liabilities, excluding debt	6,087	5,291
Total debt	3,393	3,562
Other	2,544	1,722
Common shareowners' equity	3,961	5,343

A night photograph of a city skyline, likely Seoul, South Korea, featuring the illuminated N Seoul Tower (Namsan Tower) as the central focal point. The city lights are visible in the foreground and midground, creating a vibrant urban scene against the dark night sky.

Global Strategies

World of Opportunity

Much of UTC's growth will continue to come from international markets, where the corporation has been aggressively pursuing new prospects.

Otis strengthened its foothold in the booming Pacific Rim by acquiring a majority interest in Hankook Engineering of South Korea, the region's third largest elevator market.

"Think globally but act locally" sums up the strategic direction of UTC's international marketing efforts, as the corporation continues to pursue growth opportunities worldwide to offset the effects of a weak U.S. marketplace.

While it remains one of the largest U.S. exporters, United Technologies has long recognized that to be a major player in the global marketplace its divisions must operate as local companies in many geographic markets around the world. Acquisitions, cross-border partnerships, licensing and co-production agreements, and other collaborations have been key to UTC's continued success in gaining access to those markets. Such alliances are essential in today's world because of the market knowledge, technology and additional resources that each participant brings to the venture.

Large, Growing International Business

UTC's global strategies have been paying off. International business has increased 66 percent since 1987 and now accounts for well over half the corporation's total revenues. That share could grow to as much as 75 percent by the year 2000, as the economies of many countries, especially those in Europe and the Pacific Rim, continue to outpace the United States.

Nowhere within United Technologies has global-mindedness been more evident, or more successful, than at Otis, the world leader in manufacturing and servicing elevators and escalators. Otis is the only elevator company with double-digit market shares in virtually every geographic market segment around the world, and it has a strong local presence in each one of those markets. Fully 80 percent of Otis' revenues today are generated from sales outside the United States.

Over the past two years, Otis has greatly expanded its global infrastructure by forging a number of strategic business alliances in several emerging, potentially large elevator markets such as Russia, eastern Germany and Hungary. The company also has established a manufacturing presence in South Korea, a rapidly developing country with one of the world's most active construction markets.

Carrier is another global UTC enterprise, generating about half of its revenues internationally. The company is the number one producer of heating, ventilating and air conditioning equipment in the world, and it leads the industry in many of the world's fastest

growing market segments. Carrier has distribution channels in 118 countries, and roughly half of its manufacturing now takes place outside the United States. This strategic positioning makes use of low-cost production opportunities and allows the company to participate more effectively in local markets around the world.

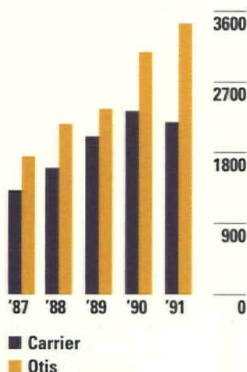
In 1991, the company enhanced its position in the Asia-Pacific region by increasing its ownership of Daewoo Carrier, a joint-venture company in South Korea. Carrier also is boosting the engineering, manufacturing and distribution capabilities of its Toyo Carrier subsidiary in Japan to address the challenges of Japanese competition in that country and throughout the Pacific Rim.

Sikorsky, the world's leading helicopter manufacturer, also is stressing global opportunities, but in ways somewhat different from those of other defense-oriented companies.

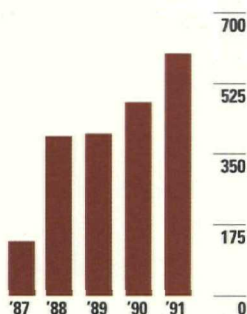
Although defense budgets will be substantially lower than in past years, the relative importance of military helicopters has increased dramatically and may continue to rise. As a result, revenues derived from Sikorsky's defense business are expected to be essentially flat, while its global markets may sustain modest growth.

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**Building Systems
International Sales**
\$ Millions

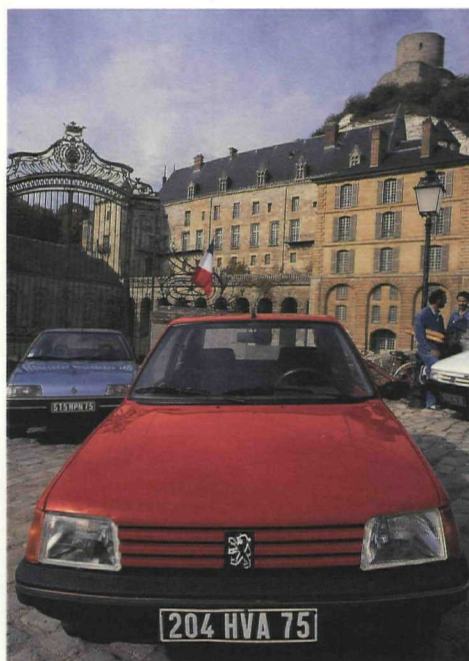


**Sikorsky
International Sales**
\$ Millions

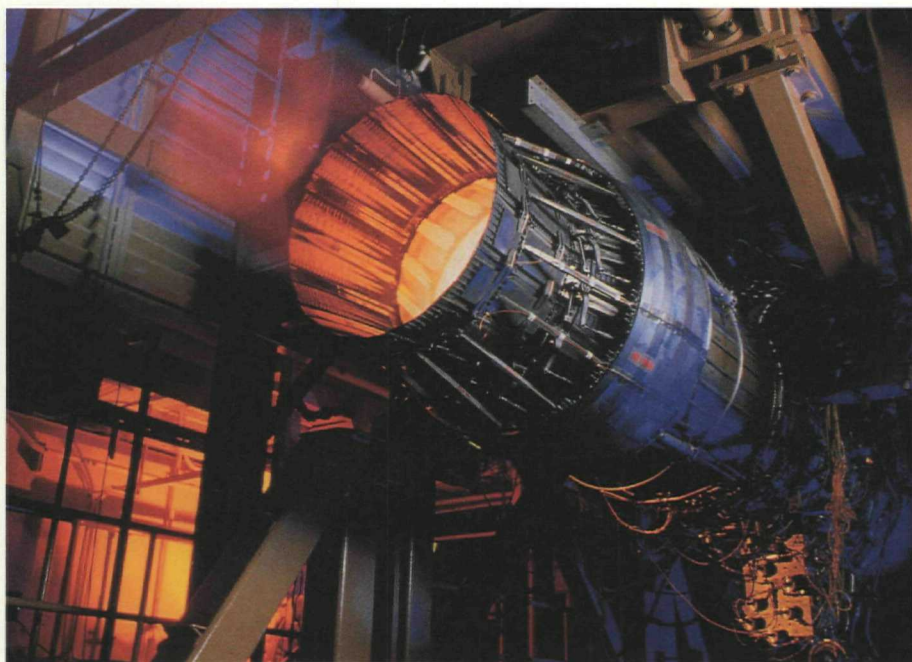


**International business now
accounts for over one-fourth
of Sikorsky's revenues - up
from less than 10 percent in
the mid-1980s.**

Hamilton Standard is teamed with Ratier-Figeac of France to provide all-composite-blade propeller systems for the world's regional aircraft.



UT Automotive's product content among European automakers is expected to average \$45 per vehicle in 1992, about double what it was in 1988.



South Korea's selection of the F100-PW-229 to power a new fleet of F-16 fighters could lead to additional PW-229 sales internationally.

Despite intensifying, increasingly fierce global competition, Sikorsky has expanded its international business to more than 25 percent of its total revenues. The company plans to step up its international collaboration and co-production activities, with the objective of boosting its internationally derived revenues to 40 percent.

Pratt Strong in Global Marketplace

Despite setbacks to the airline industry brought on by the Persian Gulf conflict and the recession, the long-range growth outlook for international air travel – and for Pratt & Whitney's commercial engine business – remains positive. Worldwide passenger traffic is expected to grow more than 60 percent by the year 2000, with the largest increases occurring in the Asia-Pacific region. In 1991, well over half of Pratt's commercial revenues came from outside the U.S.

Pratt has been strengthening its competitiveness worldwide by forming partnerships with other aerospace companies to share in the financial and technical risks of its engine programs and to secure better access to key international markets. The company now has 17 commercial engine partnerships with companies in eight countries in Europe and Asia, the largest international aerospace markets today.

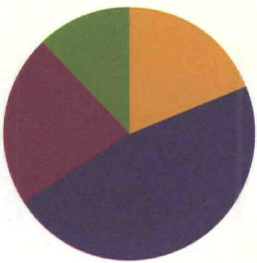
In 1991, Pratt formalized its business alliance with Daimler-Benz' Motoren- und Turbinen-Union unit of Germany. The alliance, which designates each company as the "preferred partner" of the other in future engine programs, is expected to enhance Pratt's marketing efforts in both Western and Eastern Europe.

Europe, the world's largest automobile market, offers strong growth potential for UT Automotive (UTA) as well. Sales to European automakers, which now represent 27 percent of UTA's total business, could account for about one-third of its revenues by 1996 and about 40 percent by the turn of the century.

In 1991, the company formed UTA-Europe, a fully integrated business entity with more than 25 facilities in seven countries, to provide a unified sales effort and improved customer service.

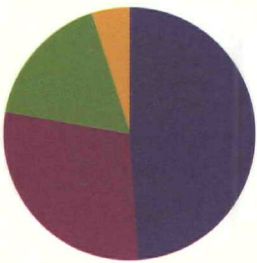
UTA also opened its first plant in Eastern Europe in 1991, a wire harness assembly plant in Hungary that provides a cost-effective supply source for car makers throughout Europe. The company is the leading independent supplier of automotive electrical distribution systems in Europe and North America. □

Carrier Revenues by Market Segment



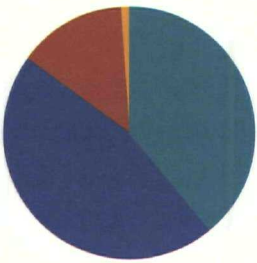
■ Residential products
■ Commercial products
■ Service/Other
■ Carrier Transicold

Carrier Revenues by Geographic Region



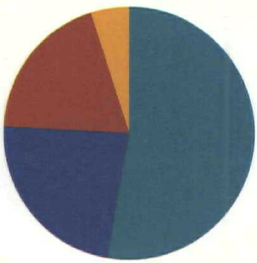
■ North America
■ Europe/Africa/Mid-East
■ Asia/Pacific
■ Latin America

Otis Revenues by Market Segment



■ New equipment
■ Service
■ Modernization
■ Other

Otis Revenues by Geographic Region



■ Europe
■ North America
■ Asia/Pacific
■ Latin America



There's room for growth in the global construction industry

For Otis and Carrier, much of the world is wide open for new business. Despite recessionary pressures and maturing traditional markets, particularly North America, both companies see opportunities in a number of fast-growing, emerging nations where new construction activity is expected to remain strong for years to come. And both Otis and Carrier are expanding their presence outside slow-growth markets to capture a major share of the developing new business.

Overall, the world market for heating, ventilating and air conditioning (HVAC) equipment is expected to grow by more than 65 percent, to about \$40 billion, by the turn of the century. The fastest growing geographic regions will be Asia-Pacific, Europe, including Central and Eastern Europe and the Middle East, as well as Latin America. More than half the total world market for HVAC products, in fact, will be in the Asia-Pacific region

by the year 2000, reflecting both the area's burgeoning economies and its climate.

The Pacific Rim also will produce Otis' most significant growth over the next decade, particularly in emerging markets such as the People's Republic of China – the region's largest new-equipment market after Japan – and in rapidly developing countries such as South Korea and the nations of Southeast Asia. Population growth and movement from rural areas to urban centers will continue to spur construction of apartments and office buildings in this region of the world.

The world of Otis also includes emerging markets in Central and Eastern Europe. The countries that made up the former Soviet Union, together, show especially strong potential for becoming a very large market – perhaps the world's largest – for new elevator equipment. The need for multi-story housing in those countries is expected to drive the demand for an estimated 50,000 units in the year 2000, or three times greater than the current North American market. ■



A reintensified focus on product support activities helped Pratt & Whitney win back Japan Airlines as a new-engine customer.

We Read You Loud and Clear

Strict attention to product support and customer satisfaction throughout UTC is paying off in new-business awards and aftermarket work.

The word out of Tokyo on July 16, 1991, prompted cheers in East Hartford, Connecticut, home of Pratt & Whitney's Commercial Engine Business. Japan Airlines (JAL), one of the world's largest and most respected airlines, had just announced it was ordering 68 PW4000 engines, including options, to power its new fleet of McDonnell Douglas MD-11s.

The JAL order potentially is worth almost \$700 million to Pratt & Whitney, but there was much more for the engine-maker to celebrate about the "win" than its dollar value. Four years earlier, JAL – exclusively a Pratt customer at the time, but deeply dissatisfied with the company's product support – announced it was switching to another manufacturer to supply the engines for its new fleet of wide-body aircraft. JAL's announcement was a wakeup call in East Hartford.

Pratt & Whitney immediately set out to win back its long-time, valued customer. That meant a top-to-bottom overhaul of its service operations – from speeding up spare parts deliveries to providing appreciably better engineering support in the field, from improving quality procedures to involving customers in problem-solving focus groups. The goal ultimately was to find the most effective ways of meeting the aftermarket needs of all Pratt's customers.

The recent JAL order capped a successful comeback effort by Pratt & Whitney to restore the airline's faith in Pratt's customer service reputation, but it was only one of a number of awards in 1991 – including a

PW4000 order from All Nippon Airways, traditionally a GE customer – that helped Pratt retain a strong position in the large-engine segment of the market.

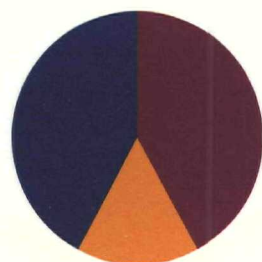
Successful rebuilding of customer confidence also has taken place in the government engine business, where a decade ago Pratt's product support reputation had been flagging. The low point came in 1984, when the U.S. Air Force designated General Electric as a second engine source for the F-16, awarding it 75 percent of the business that year. The high point came in 1991 when, after a long and spirited competition with GE, Pratt's new-technology F119 engine was chosen by the Air Force as the exclusive powerplant for its Advanced Tactical Fighter (ATF) aircraft.

Teaming with the Customer

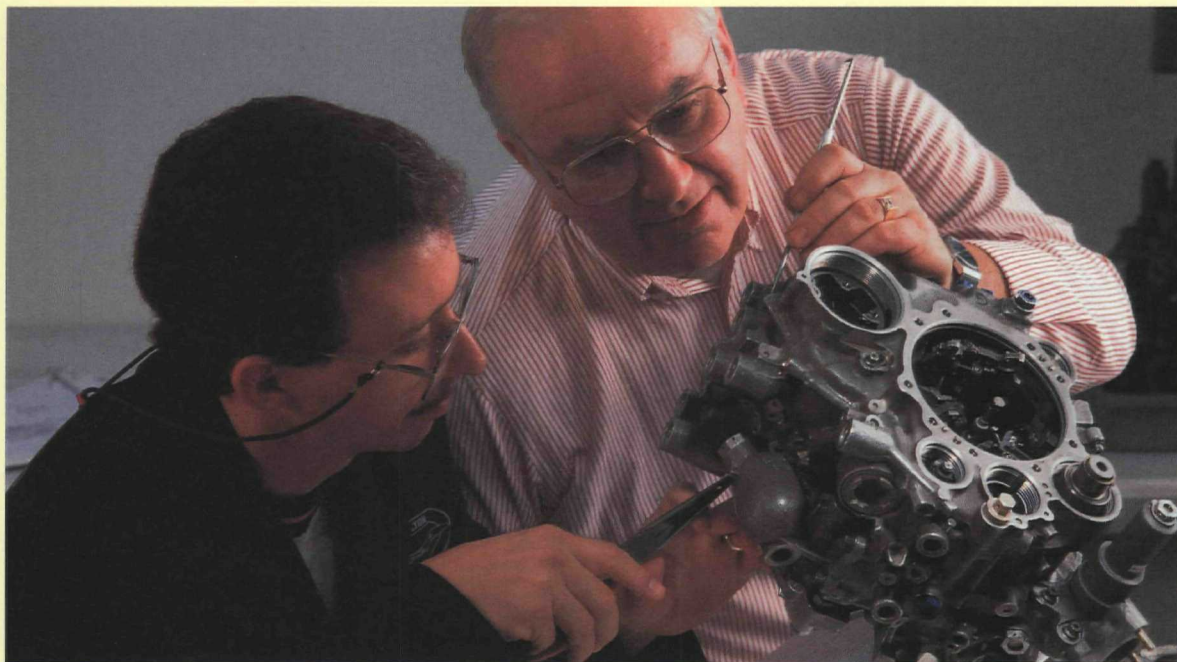
In between, Pratt & Whitney had succeeded in regaining the trust and satisfaction of its military customer. On the ATF program, for example, Pratt personnel worked as a team with Air Force representatives, including pilots and mechanics, at every stage of the competition – from development and production to flight testing. And since 1987, the company has captured at least half of the Air Force's fighter engine requirements each year for the F-15 and F-16, as well as several highly coveted trophies recognizing its quality workmanship and cost-cutting efforts.

continued on page 13

Aftermarket Sales



■ Power
■ Flight Systems
■ Building Systems



Focused on product support and customer satisfaction

Standard that is focused on providing customers with overhaul and repair services for all its aircraft products, as well as for some Pratt & Whitney engine components.

HSS strives to give its customers maximum service value through quality workmanship and fast job turnarounds, which are key to keeping aircraft out of the hangar and in the air.

Meeting increasingly demanding customer requirements for prompt, top-quality O&R work can be challenging in and of itself for any company. For Hamilton Standard, the challenge is further complicated by the many different types of aircraft products the company supplies – products ranging from propellers and flight systems to engine controls and environmental control systems for military and civilian markets.

While the volume of work at HSS' new 275,000-square-foot customer service center in

Keep 'em flying. That's the one all-important, all-consuming objective of Hamilton Support Systems (HSS), a business unit of Hamilton

Connecticut continues to increase, turn times continue decreasing – the result of streamlined operations, specialized work teams and state-of-the-art equipment. And HSS' facility in Long Beach, California, is reducing turn times with a major upgrading project on its jet fuel controls test area.

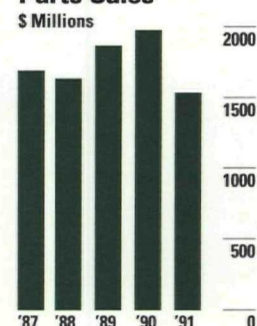
As a result of its intensified focus on quality and prompt customer service, HSS has succeeded in cutting overall turn times in half in 1991, and now aims for a 10- to 15-day average turnaround.

To deliver faster service to its Asia-Pacific airline customers, Hamilton Support Systems will open a new O&R center in Singapore in the first half of 1992, sharing a facility with Pratt & Whitney, primarily to service electronic controls for PW4000 engines.

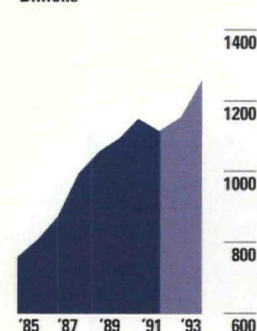
Hamilton Standard continues to expand its overhaul and repair business in Europe with the support of its European affiliates – Microtecnica of Italy, Nord-Micro of Germany, and Ratier-Figeac of France – and in cooperation with the Pratt & Whitney Overhaul & Repair Center – Europe.

All of these initiatives stem from HSS' commitment to providing customers with "total value" in the sum of its products, services and prices. ■

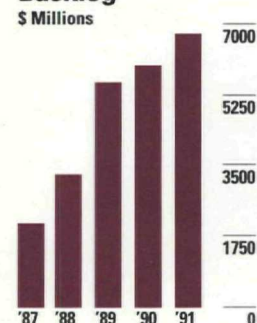
Pratt & Whitney Commercial Spare Parts Sales



Revenue Passenger Miles (Growth)



Pratt & Whitney Commercial Engine Backlog



New engine orders eventually translate into spare parts sales, a long-term, relatively high-margin after-market business that normally accounts for a significant share of Pratt & Whitney's revenues. In 1991, however, rising fuel prices and fear of terrorism during the Gulf War, along with recessionary pressures on the airline industry, resulted in less commercial air travel and a 25 percent drop in Pratt's spare parts sales.

While there have been down cycles in the spares business before, most recently during the recession of the early 1980s, sales generally have grown along with the worldwide increase in commercial flying. That trend is expected to continue as the economy gradually recovers. Most of the growth will continue to come from outside the United States.

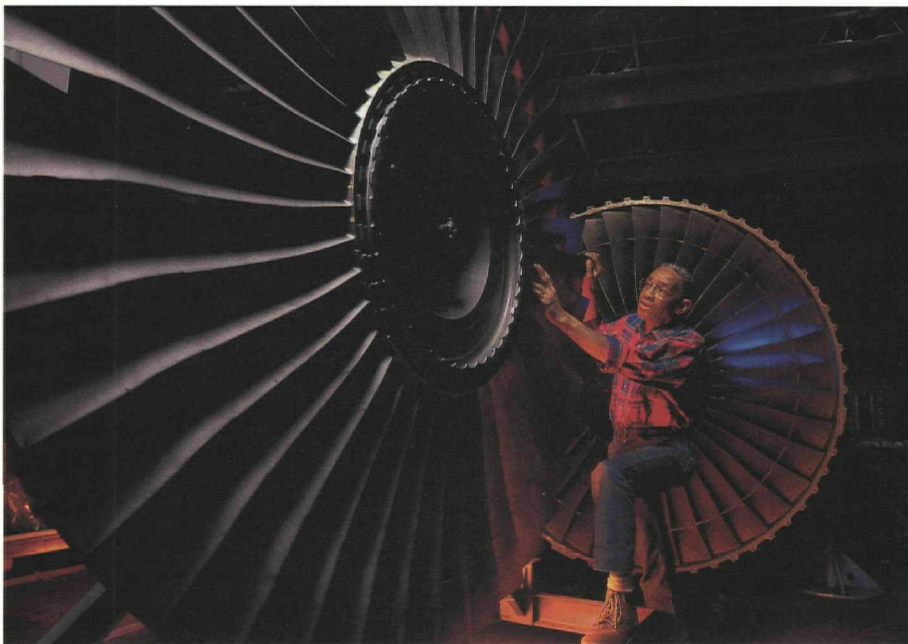
Otis Maintains Large Aftermarket Business

The aftermarket also is an important business segment for Otis. Service and modernization of existing installations accounted for approximately 60 percent of Otis' total revenues and a substantial portion of its profits in 1991.

Otis has increased its sales force and introduced new products, such as the Elevonic® 411M™ and 311M™ systems, to meet growing customer demand in the modernization segment of the market. This is a \$600 million a year business for Otis that has grown at a compound annual rate of 26 percent over the past five years. Demand is particularly strong in industrialized countries with large installed bases of older equipment.

Today, Otis maintains more than 700,000 elevators and escalators worldwide, most on extended-term contractual relationships. Over 22,000 Otis service mechanics, based at some 1,700 locations around the globe, are backed by the most sophisticated customer service infrastructure in the industry. For example, OTISLINE®, a 24-hour-a-day service-dispatching communications network, handles more than two million incoming and outgoing calls in France annually, and in North America, OTISLINE customer service reps handle nearly 3.5 million calls from U.S. and Canadian customers each year. Mechanics are able to respond to emergency calls immediately and correct other

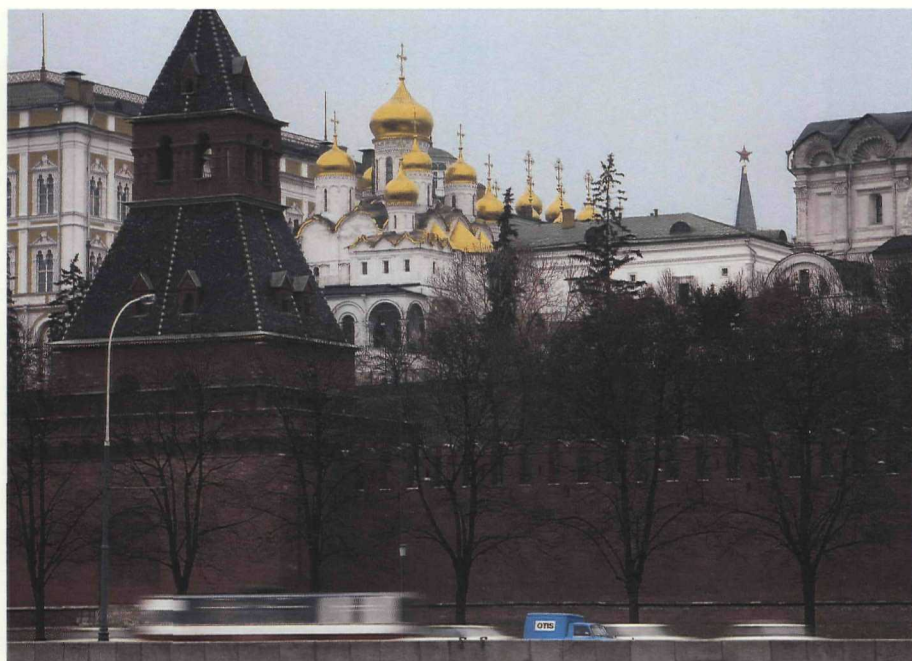
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Pratt & Whitney is expanding its overhaul and repair capabilities in the United States and overseas.



Otis service centers in nine countries house 100,000 different parts not available elsewhere.



More than 22,000 Otis service mechanics work out of some 1,700 locations around the globe.

Carrier Dealers Rate Carrier
North America

Best equipment availability

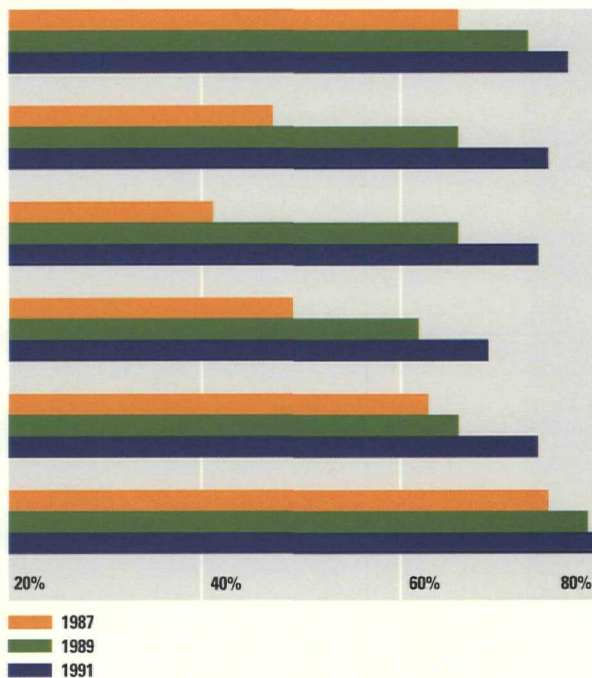
Fewest service problems

Best quality workmanship

Best value for money

Best job backing up dealers

Greatest consumer acceptance



Source: The Research Guild,
Atlanta, Georgia

problems about two-and-a-half hours, on average, after the customer's call is received.

In the United States, Otis recently introduced another innovation – a wireless hand-held computer terminal that keeps mechanics in constant touch with OTISLINE and even allows them to research an elevator's recent maintenance history while on their way to a service call. Otis mechanics are also backed by distribution centers in nine countries. These centers house virtually every single item or component required to keep Otis equipment in service. In North America, where Otis maintains 95,000 units, the company's Connecticut service center handles more than 17,000 active parts. More than 95 percent of all orders received for these parts by 8 p.m. are shipped from the facility that same night.

Benchmarks for Customer Satisfaction

Carrier's future success hinges to a great extent on satisfying customer requirements for well-engineered, competitively priced, quality products. Today, increased feedback from the assembly line, as well as from dealers and customers in the marketplace, is providing better benchmarks by which Carrier is able to measure its conformance to those requirements.

The results are very positive. Independent surveys of Carrier dealers, for example, reflect increasingly positive attitudes toward the company. Since 1989, Carrier has recorded significant quality improvements in its principal residential and commercial product lines according to two widely accepted measures: start-up performance and warranty claims recorded during the first year of service. Over the past five years, new-installation quality problems in the company's principal line of home air conditioning compressors have been cut in half, and costly warranty claims have dropped accordingly.

Carrier is addressing changing customer requirements on a number of different fronts. With construction activity flat in North America, the add-on and replacement segment of the heating and air conditioning business, both residential and commercial, has become increasingly important. Carrier has been introducing new products and adjusting its extensive distribution system to capture a larger portion of this faster growing, higher margin business. In 1991, sales of add-on and replacement products accounted for about two-thirds of Carrier's total North American revenues. □



Getting closer to the customer – and getting there early

Nothing too unusual about that – except they've been working alongside Ford design engineers, and the truck is nearly four years from production.

More and more, UTA engineers in many product lines are called on to work as part of a team of customer engineers and key suppliers, sharing design information on the entire vehicle as early in its development stage as possible.

It's a prime example of how today's automakers – eager to improve quality, cut costs and reduce product development times – are outsourcing an increasing amount of the design and engineering work to trusted suppliers like UT Automotive. It also illustrates how UTA is increasingly influencing the design of components and systems that the automakers once developed themselves.

With an eye toward the entire chain of customer satisfaction, UTA has developed a continu-

ous improvement program, aided by computerized statistical analysis, to ensure that vehicles with its wiring systems exhibit high reliability in the field. Many, in fact, have the lowest number of wiring warranty claims of any vehicles in their class, due to the quality engineered into the systems.

Since July 1991, engineers from UT Automotive (UTA) have been hard at work designing the vehicle wiring system for a future model of the Ford Explorer.

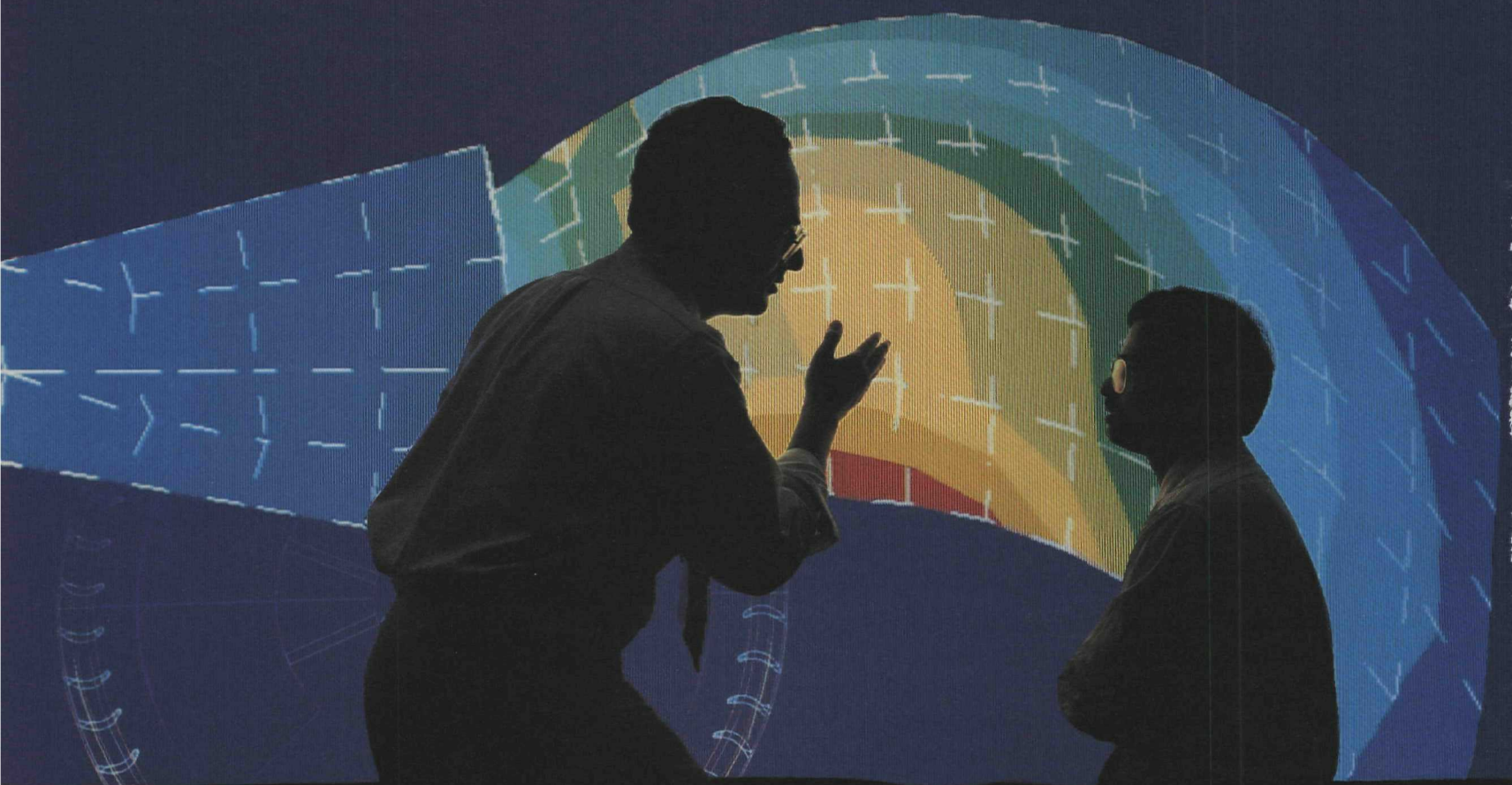
As part of this innovative program, UTA engineers work closely with automakers, sharing computer data to identify and correct the root cause of any wiring system problems that might occur in design, manufacturing or the vehicle assembly plant. This data is used to improve future wiring system designs and to reduce car owners' warranty claims. The results of UTA's efforts have been dramatic. Wire harness problems on one Ford luxury carline, for example, dropped 50 percent in the first eight months of the program.

The program is now in place with all of the company's wiring systems customers. Its success is a major reason why UTA won a \$130 million annual contract in 1991 to supply 80 percent of the electrical distribution system for Ford's 1995 Taurus and Sable models – the largest North American new-business award in its history. ■

Investing in the Future

Competitive Edge

UTC is making strategic investments in all its businesses to maintain its strength as one of the world's leading industrial companies.



Carrier has been increasing its R&D investment in core technologies to enhance its competitiveness and future profitability.

Although it is closing and consolidating facilities worldwide to get rid of excess capacity, United Technologies continues to invest prudently in technology advances and "bricks and mortar" to spur new-product development and enhance quality and productivity. Here are three key areas where R&D and capital spending is expected to sharpen UTC's edge in an increasingly competitive marketplace.

Carrier: Investing in Core Technologies

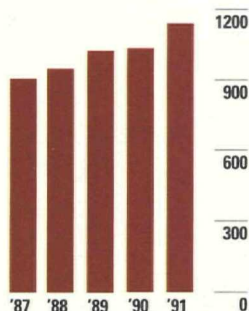
Customers in the heating, ventilating and air conditioning (HVAC) business require equipment that is efficient, quiet and high-quality – all at a competitive price. To meet those requirements while staying ahead of its competition, Carrier remains committed to what has been for years the largest R&D initiative in the industry. Carrier spent more than \$100 million for research and development in 1991, and it plans to invest an additional \$550 million over the next five years to enhance future profitability. The strategic focus is on advancing core technologies related to compression, electronics and controls, refrigerants, air management, heat transfer, and indoor air quality.

Carrier is working on a \$110 million program, for example, to design and manufacture advanced-technology scroll compressors for its residential and light commercial air conditioning equipment. By producing its own scroll, Carrier will be better able to control the technology of this critical component and the costs of its product lines. Initial production at a new plant in Arkansas is scheduled for the second half of 1992.

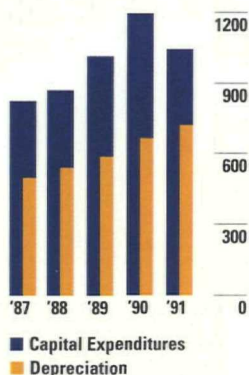
Carrier also has committed \$70 million over a five-year period to phase out the use of CFC refrigerants and to develop products that prevent ozone-depleting refrigerant emissions. The company has already introduced several refrigerant management and recovery systems; and in 1991 it unveiled the industry's only new-technology centrifugal compressor that uses HCFC-22, an environmentally safer alternate to the CFC-11 refrigerant now used in some 75,000 chillers.

In Japan, the Toyo Carrier subsidiary opened a \$30 million engineering center in 1991 to help develop new products to meet that country's exacting specifications for quality and performance. Another objective is to establish a stronger engineering presence in Japan, the world's largest HVAC market. It also is making substantial capital commitments to improve the productivity of its large manufacturing facility there.

R&D Expenses
\$ Millions



Capital Expenditures and Depreciation
\$ Millions



The PW4000 engine has the innate ability to grow in thrust to meet customer requirements for the wide-body aircraft of the future.

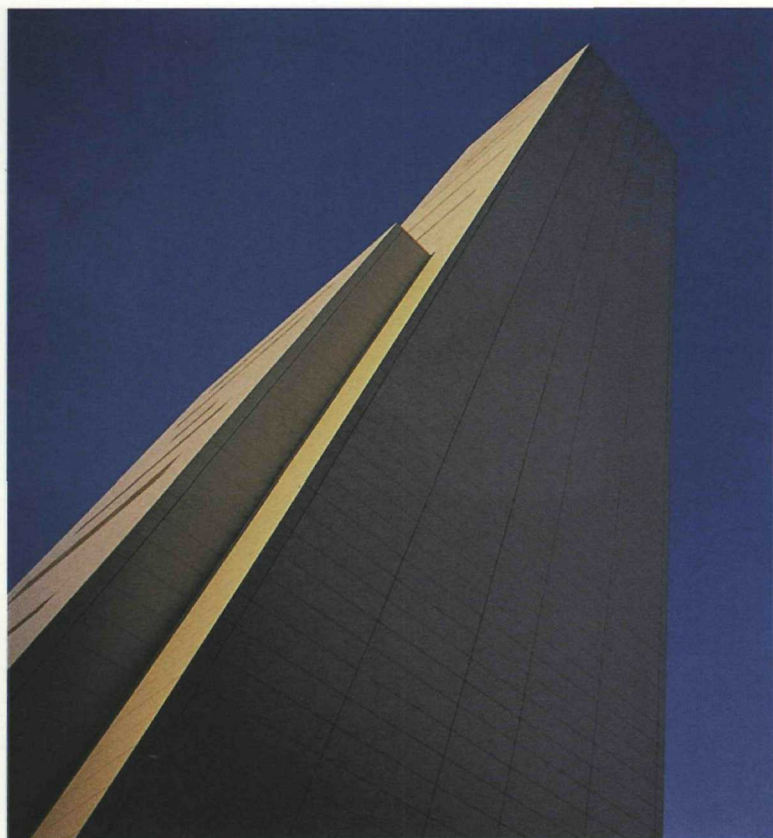
Pratt & Whitney: Growing the PW4000

The flagship of Pratt & Whitney's commercial engine business today is the PW4000, the most powerful and advanced family of Pratt turbofans. Since entering service in 1987, the PW4000 has captured 55 percent of the engine competitions for wide-body aircraft and now powers every wide-body model in production.

The PW4000 has demonstrated a record of performance and reliability that matches or exceeds that of engines with many more years of operating experience. To meet increasingly demanding customer needs to reduce fuel costs and extend the flight range of aircraft over long-distance routes, Pratt has put together an aggressive performance improvement program that is expected to boost the fuel efficiency of the PW4000 by five percent and enhance its competitive position for future orders.

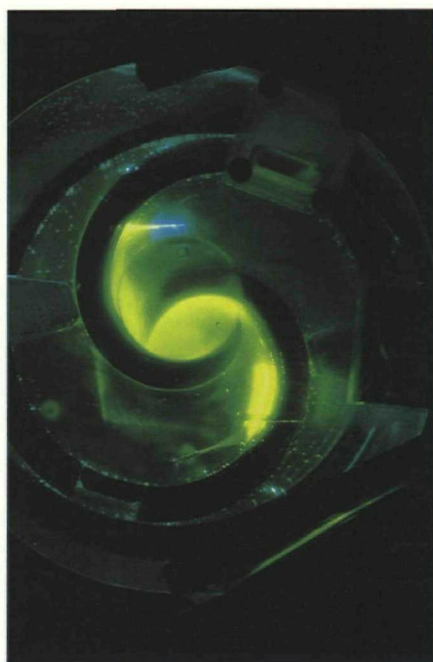
Pratt & Whitney also is investing in higher thrust versions of the PW4000, which had been designed originally with built-in growth capability, to power a new generation of larger wide-body aircraft. The company is increasing the engine's thrust by enlarging its fan and adding stages to the low-pressure compressor and low-pressure turbine, but the core – the heart of

continued on page 18



The Bristol Test Tower is the centerpiece of Otis' longstanding commitment to product excellence and customer satisfaction.

The elements of Carrier's scroll compressor are machined to precise tolerances to assure smooth, efficient, reliable operation. The new compressor will be used in many of the company's air conditioners and heat pumps.



the engine – will remain fundamentally the same. This strategic approach allows for an incremental financial investment that is far less than what would be required for an entirely new engine development program.

Otis: Advancing the State of the Art

Otis' commitment to product excellence and customer satisfaction is underscored by a 10-year, \$1 billion R&D program begun in 1985 to infuse advanced technologies and customer-service innovations throughout the company's entire product line. For example, Otis engineers – with support from the United Technologies Research Center – are refining electronics to advance elevator dispatching beyond state-of-the-art standards, using such high-tech enhancements as fuzzy logic, artificial intelligence and neural networks.

They are also developing and introducing significant new product features such as active suspension systems to improve ride quality, and AC variable frequency drives to improve operating efficiencies and reduce power consumption.

As part of its commitment to continuous quality improvement, Otis is building a facility adjacent to its Bristol Research Center in Connecticut to test, evaluate and qualify the performance of new elevator and escalator components and subassemblies for world-wide markets. Otis also established a facility nearby for qualification testing and analysis of semiconductor devices. It is one of the most advanced facilities of its kind in the United States.

In Japan, where the requirements for the latest technology are the highest in the world, Nippon Otis recently opened its new Technology Institute, and it is in the process of expanding its R&D capabilities to meet local market requirements.

Otis continues to make strategic investments in its manufacturing capabilities as well. The company has doubled the capacity of its factory in Shibayama, Japan, to meet increased customer demand in that country, and a new facility in Penang, Malaysia, will soon produce elevators and escalators for the Asia-Pacific market. Otis also is modernizing and expanding its elevator controller production facility in Berlin, Germany, and its major escalator manufacturing source in Stadthagen, Germany. □



UTC defense technologies stood the test of Operation Desert Storm

UTC's defense products, some of which were being tested for the first time in battle, proved they were up to the challenge of combat.

Pratt & Whitney engines, for example, powered some 1,000 U.S. and coalition aircraft that ruled the skies over the Persian Gulf. More than 700 Sikorsky helicopters, including about 450 U.S. Army BLACK HAWKS, were deployed to the region to perform a variety of land- and sea-based missions. UTC's Chemical Systems Division provided the solid-fuel propulsion unit for the Tomahawk cruise missile, while Hamilton Standard's participation was evident in an array of propellers and other aircraft components. Norden radar and fire control systems detected hostile targets and directed weapons strikes from long range with pinpoint accuracy. Even Joint-STARS, a highly advanced radar and command-and-control system still in development, was pressed into service, with two test aircraft logging more than 600 combat hours on 54 missions. ■

Corrosive sand, scorching heat and round-the-clock operations posed harsh conditions for the military hardware that supported the efforts of Operation Desert Storm.

Pratt & Whitney

F-15 Eagle



F-16 Fighting Falcon



F-111



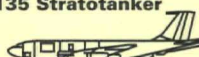
A-6 Intruder



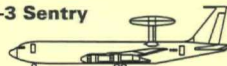
F-14 Tomcat



KC-135 Stratotanker



E-3 Sentry



B-52 Stratofortress



A-4 Skyhawk



Sikorsky

BLACK HAWK



SEAHAWK



PAVE HAWK



SUPER STALLION



SEA DRAGON



SEA KING



PAVE LOW

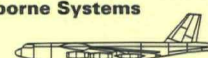


Norden

E-8 Joint-STARS



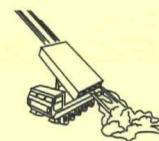
Airborne Systems



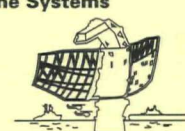
Command and Control Systems



Multiple Launch Rocket System



Marine Systems





21st-Century Technology

The Next Generation

The Comanche helicopter and F119 engine feature all-new, state-of-the-art technology that should carry UTC's defense business well into the next century.

Sikorsky is developing the Comanche aircraft, the next generation of U.S. Army armed reconnaissance helicopters.

The Boeing Sikorsky team and Pratt & Whitney won hard-fought competitions in 1991 for what could be two of the largest, most significant new U.S. defense programs to go forward in an otherwise shrinking market. The critical technologies developed during the course of these programs should firmly position both Pratt & Whitney and Sikorsky as market leaders for many years to come.

Full-Scale Development Under Way

The U.S. Air Force selected Pratt & Whitney's new F119 engine to power the F-22 Advanced Tactical Fighter (ATF), a next-generation aircraft that will replace the F-15 in the U.S. fleet of jet fighters. The award calls for Pratt to conduct a \$1.37 billion full-scale development phase, followed by a production program starting in 1997 with a potential value of approximately \$11 billion.

Hamilton Standard will provide the F119's full-authority digital electronic engine control and the comprehensive engine diagnostic unit.

Sikorsky, teamed with Boeing Helicopters, was awarded the contract to develop the new RAH-66 Comanche, the U.S. Army's next generation of armed reconnaissance helicopters. Under the terms of the proposed U.S. defense budget, the Boeing Sikorsky Comanche team will receive a total of \$1.96 billion to develop the new helicopter and flight-test three prototype aircraft through 1997. The Army has a stated requirement for nearly 1,300 aircraft valued at more than \$30 billion, with about half that amount going to Sikorsky.

Hamilton Standard will supply various avionics and environmental control systems as a subcontractor to the Boeing Sikorsky team.

The high level of technology being brought to bear to design and produce the Comanche will provide Sikorsky with the skills to upgrade its current products and build more advanced helicopters in the future.

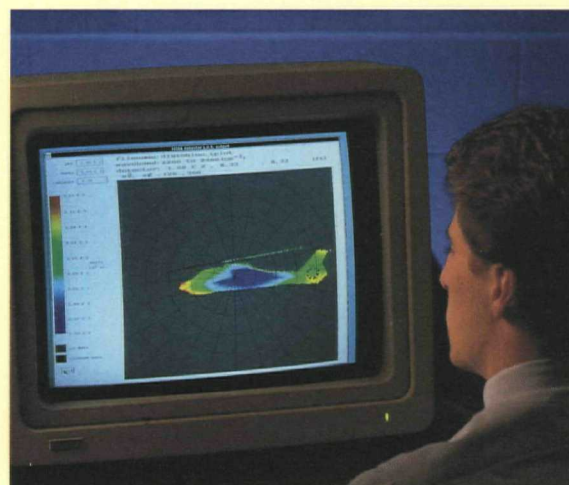
Both the ATF and Comanche aircraft contracts were awarded on a cost-plus-incentive fee basis which, unlike fixed-price contracts, limits the downside risk of the contractors in the development phases of their respective programs. □



The ATF program calls for some 1,500 F119 engines, including spares, to power as many as 650 aircraft.



The Hamilton Standard full-authority digital electronic engine control, or FADEC, controls all F119 engine functions.



Transforming theory into reality—and a clear margin of victory

Winning requires that extra something. For Pratt & Whitney and the Boeing Sikorsky team competing for the ATF and Comanche programs respectively, it meant

developing some of the most advanced aerospace technologies ever envisioned. That extra margin of victory came largely from the United Technologies Research Center, the R&D arm of the corporation.

Over the past decade, the Research Center has provided a wide range of special services and technologies to support Pratt's development of the F119 engine. A new generation of lightweight ceramic composites and advancements in the engine's fuel-injection system and electronic controls were just a few of the Center's innovations to improve the fuel efficiency of the F119, extend its range, increase its thrust and reduce its weight.

Among its many contributions to gaining competitive advantage for the Boeing Sikorsky team, the Research Center spearheaded efforts to enhance the stealth characteristics of the Comanche by minimizing its engines' infrared emissions. The Center also developed special artificial intelligence for the aircraft's integrated diagnostics system, making it possible to offer the Army a reliable aircraft that could be maintained easily and repaired quickly in the field. ■

Management's Discussion and Analysis

Management's Discussion and Analysis of Results of Operations and Financial Position

The following discussion and analysis sets forth major factors affecting the Corporation's results of operations during the three-year period ended December 31, 1991. It also includes comments on the Corporation's financial position at that date as presented in the accompanying financial statements. Operating results for the Corporation's business segments are shown in the Consolidated Summary of Business Segment Financial Data on pages 50 through 52 of this Annual Report.

Business Environment

The Corporation's major business units serve government and commercial aerospace, automotive manufacturing, commercial property and residential housing customers. Like many businesses, these operations are increasingly affected by global, as well as regional, economic cycles. In recent years, the Corporation has been steadily reducing its reliance on defense contracts and its exposure to loss from significant fixed-price development programs.

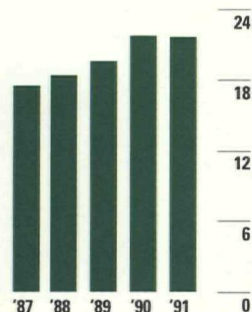
In 1991, economic recession caused in part by the Gulf War continued to adversely impact several markets served by the Corporation's businesses. In particular, North American commercial airline, automotive manufacturing and commercial and resi-

dential construction markets continued to decline from late 1990 levels, while markets in certain other parts of the world gradually weakened throughout 1991.

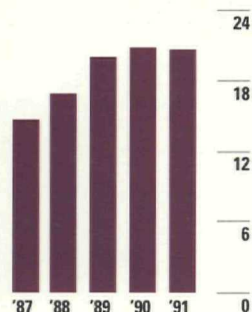
In addition to the traditional impacts of economic cycles, the Corporation's aerospace and defense businesses are continuing to respond to a global political environment in which barriers are being dissolved with relative speed. An upswing in the historical United States defense industry cycle does not appear likely, and current trends indicate possible further reductions in defense activities and spending globally.

Despite the trend toward reduced government defense spending, in 1991 the Corporation was awarded a \$1.37 billion development contract for the Advanced Tactical Fighter engines. In addition, a team led by Sikorsky Aircraft and Boeing Helicopters won a \$1.96 billion contract to develop the RAH-66 Comanche helicopter. Both contracts were expected to extend generally into 1997. Present U.S. government budget proposals, however, recommend modifying the Comanche development program requirements and timetable, without reducing anticipated program expenditures, in addition to possibly deferring production contract awards. To date, there have been no similar proposals to extend development timeframes or to defer production contract awards for the Advanced Tactical Fighter engine program.

Revenues
\$ Billions



Backlog
\$ Billions



Restructuring and Cost-reduction Efforts

Given the depth and breadth of the above impacts on its core businesses, the Corporation continued to pursue all opportunities to improve the manufacturing productivity, profitability and market positions of those businesses in the future. In August 1991, the Corporation announced a goal of reducing its overall operating costs by \$1 billion a year beginning in 1994. Throughout the remainder of 1991, the Corporation's businesses developed specific restructuring plans and actions to be implemented primarily over the next two years, but extending to four years for certain actions, in order to meet that goal. On January 20, 1992, the Corporation's Board of Directors approved the restructuring plans which resulted in a \$1.275 billion pre-tax (\$1.21 billion after-tax, or \$10.06 per share) charge to operations. The restructuring actions include eliminating jobs, closing or consolidating facilities, and improving design, engineering and manufacturing processes. The restructuring charge includes \$423 million for employee severance and \$852 million for facility closure, consolidation and process improvements.

The elimination of approximately 13,900 jobs (7% of the Corporation's worldwide employment) is expected to be accomplished through severance and enhanced early retirement programs. The Corporation estimates annual savings of \$440 million will be realized upon attainment of job eliminations.

The Corporation plans to close or restructure over 100 facilities throughout the world, thereby reducing manufacturing capacity by approximately 16%. The Corporation estimates that the related annual savings will be approximately \$260 million.

Improvements in product design, engineering and manufacturing processes include reducing the number of manufacturing suppliers, increasing focus on dedicated commercial product facilities, and increasing the integration of product design, engineering and manufacturing activities. The Corporation estimates that the related annual savings will approximate \$380 million.

By 1995, Pratt & Whitney will cut about 5,000 jobs, shrink manufacturing space by 3.1 million square feet, and reduce its manufacturing suppliers from approximately 500 to fewer than 250.

Hamilton Standard will rationalize manufacturing operations and establish small, focused facilities for commercial products, which will reduce manufacturing capacity by 500,000 square feet and eliminate 950 jobs.

Norden is continuing to consolidate its manufacturing operations in Norwalk, Conn., reducing 190,000 square feet of space. Norden will eliminate 700 jobs by 1994.

Sikorsky will reduce employment by approximately 210 jobs.

By 1994, Carrier will reduce employment by 1,525 jobs and manufacturing capacity by 1.7 million square feet. These actions will include the closing of plants, already announced, in City of Industry, Calif., Knoxville, Tenn., and Ellijay, Ga.; they also include the closing of other facilities outside the U.S.

Otis will eliminate approximately 3,950 jobs and reduce manufacturing capacity by 721,000 square feet by 1994.

United Technologies Automotive will reduce its worldwide employment by approximately 880, and it will close or consolidate 16 plants by 1994, reducing manufacturing capacity by 1.7 million square feet.

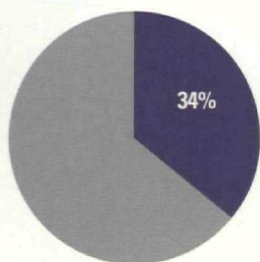
Corporate headquarters and research and development staff reductions will reduce employment by approximately 500.

Environmental Remediation Activities

In late 1990 and continuing into 1991, the Corporation dramatically heightened its focus on, and devoted substantive resources to, addressing environmental remediation matters and to minimizing hazardous waste generation. Throughout the period, the Corporation engaged environmental engineering consultants to assist with preliminary studies and assessments of the Corporation's operating sites to ascertain the nature and extent of environmental remediation activities required to mitigate existing contamination. Those studies and assessments provided the basis for developing estimated costs for environmental remediation activities and for a related fourth quarter pre-tax charge to operations of \$256 million, principally impacting the Power and Flight Systems segments.

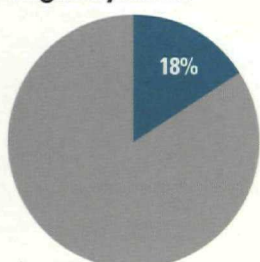
1991 Revenues

Power



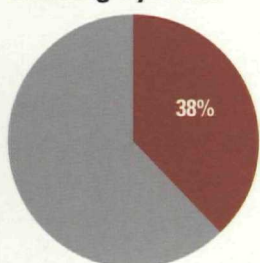
Pratt & Whitney
(commercial business)
\$3.8 billion
Pratt & Whitney
(government business)
\$2.1 billion
Pratt & Whitney Canada
\$1.3 billion

Flight Systems



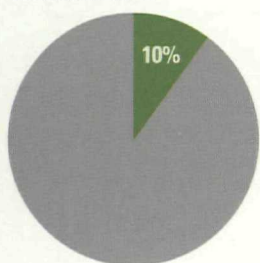
Sikorsky \$2.0 billion
Hamilton Standard \$1.2 billion
USB/Chemical Systems \$0.5 billion
Norden \$0.2 billion
Other \$0.1 billion

Building Systems



Otis \$4.3 billion
Carrier \$3.8 billion

Automotive



UT Automotive \$2.1 billion

Results of Operations

Revenues:

Decreased 2% or \$526 million from 1990 to 1991;
Increased 10% or \$2 billion from 1989 to 1990.

Sales decreased 3% in 1991 and increased 10% in 1990 (6% in 1990 excluding the sales of Sheller-Globe, which was consolidated effective December 31, 1989). It is estimated that increases in selling prices to customers averaged 3% in 1991 and 1990. The net impact of translating sales of foreign subsidiaries was not significant in 1991 and increased 1990 sales by 3%, indicating that the real volume of sales decreased approximately 6% in 1991 and increased approximately 4% in 1990.

Financing revenues and other income, less other deductions, increased \$76 million in 1991, primarily from an increase of \$103 million in commercial aircraft engine program participation fees. Financing revenues and other income increased by \$74 million in 1990 primarily from gains realized on the sale of certain businesses.

Revenues of the Corporation's principal business segments for the years ended December 31 were:

In Millions of Dollars	1991	1990	1989
Power	\$7,171	\$7,297	\$7,055
Flight Systems	3,973	4,034	3,782
Building Systems	8,140	7,988	7,244
Automotive	2,084	2,621	1,932

In 1991, 53% of Power segment revenues were in the commercial airline market (54% in 1990 and 51% in 1989); 29% were for military use (28% in 1990 and 33% in 1989); and 18% were in the general aviation market (18% in 1990 and 16% in 1989).

Power segment revenues decreased in 1991 by \$126 million (2%) primarily due to reductions in commercial spare parts sales and general aviation engine shipments, partially offset by a \$103 million increase in commercial aircraft engine program participation fees. Spare parts sales in 1991 have been adversely impacted by significantly reduced airline travel and the weakened financial condition of the North American commercial airline industry. Power revenues increased in 1990 by \$242 million (3%). Increased sales of commercial

aircraft engines and spare parts and increased revenues in the general aviation business were offset by lower revenues in the military engine business. The increase in the commercial business was due in large part to increased shipments of PW4000 series engines.

Helicopter business revenues in 1991 contributed 51% of Flight Systems segment revenues (48% in 1990 and 47% in 1989); sales of defense electronics, space propulsion and other aircraft products provided the remainder of the segment's revenues. Flight Systems segment revenues decreased \$61 million (2%) and increased \$252 million (7%) in 1991 and 1990, respectively. The 1991 decrease was due to decreased revenues in most businesses within the segment, partially offset by increased helicopter business volume, while the 1990 increase arose principally from higher helicopter and aircraft product volume partially offset by decreased revenues from defense electronics programs.

Total Building Systems segment 1991 revenues included 53% from elevator and escalator products and services (50% in 1990 and 45% in 1989) and 47% from air conditioning products and services (50% in 1990 and 55% in 1989). Revenues increased \$152 million (2%) in 1991 and \$744 million (10%) in 1990. The impact of foreign exchange rates versus the dollar decreased sales in 1991 by approximately \$67 million and increased sales in 1990 by approximately \$421 million. Revenues in 1991, exclusive of the translation impact, were higher for service and new equipment in the elevator business, offset by lower revenues in the air conditioning business caused by lower volume. Increases in elevator service and new equipment revenues in the Europe and Asia-Pacific areas were partially offset by declines in North America. The air conditioning volume reductions were attributable to generally weak global residential and commercial construction markets. The increased revenues in 1990, exclusive of the translation impact, were the result of increased volume and service revenues in the elevator business and increased air conditioning products and service revenues in markets outside of North America, partially offset by declines in North American air conditioning products and service revenues.

Automotive segment 1991 revenues decreased \$537 million (20%). Approximately one-half of the decrease was due to significantly lower North American automobile production with the remainder primarily attributable to the divestiture of certain related businesses in 1990. Segment revenues increased \$689 million (36%) in 1990, due primarily to the addition of Sheller-Globe's revenues.

Cost of goods and services sold as a percent of sales increased:

4% from 1990 to 1991;
1% from 1989 to 1990.

The 1991 increase was attributable to higher manufacturing costs in the commercial aircraft and general aviation engine businesses, lower selling prices on elevator and escalator new equipment sales and service caused by greater price competition in economically weakened markets, and environmental remediation charges of approximately \$300 million. The 1990 increase resulted from the inclusion of Sheller-Globe and higher manufacturing costs in the air conditioning business, which were partially offset by improved pricing in the commercial aircraft engine, helicopter and aircraft product businesses.

Research and development expenses:

increased 11% or \$114 million from 1990 to 1991;
remained level from 1989 to 1990.

Gross research and development expenditures in 1991 and 1990, before the reductions described below, were 1% lower and 1% higher than in 1990 and 1989, respectively. The decrease in 1991 was attributable to a reduction in expenditures for military aircraft engine development programs partially offset by increased expenditures in the Building Systems segment. The increase in 1990 was primarily attributable to higher expenditures in the Building Systems segment.

Partial recovery of research and development costs from advanced commercial aircraft engine program fees and fees from partial sponsorship of military aircraft engine programs, aggregating \$126 million, \$251 million and \$240 million in 1991, 1990 and 1989, respectively, have been applied as reductions of research and development expenses. The decrease in fees in 1991 was attributable primarily to reduced sponsorship

of military aircraft engine programs, the most significant of which was the Advanced Tactical Fighter engine.

Selling, service and administrative expenses:

decreased 3% or \$82 million from 1990 to 1991;
increased 10% or \$283 million from 1989 to 1990.

Selling, service and administrative expenses as a percent of sales have remained relatively constant in all periods presented.

Operating profits (losses):

decreased \$2,150 million from 1990 to 1991;
increased 5% or \$79 million from 1989 to 1990.

Operating profits (losses) of the Corporation's principal business segments for the three years ended December 31 were:

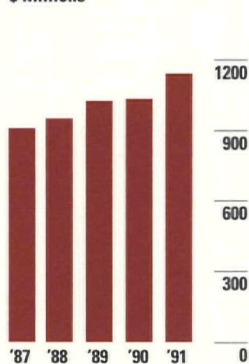
In Millions of Dollars	1991	1990	1989
Power	\$ (283)	\$1,010	\$940
Flight Systems	(213)	90	26
Building Systems	4	425	458
Automotive	2	150	156

The 1991 operating profits (losses) above include the restructuring provision discussed previously. For purposes of the analytical discussions presented in the following paragraphs, operating profits (losses), excluding the 1991 restructuring provision, were:

In Millions of Dollars	1991	1990	1989
Power	\$411	\$1,010	\$940
Flight Systems	(77)	90	26
Building Systems	327	425	458
Automotive	61	150	156

Power segment operating profits decreased \$599 million (59%) in 1991 and increased \$70 million (7%) in 1990. The decrease in 1991 was primarily attributable to reduced general aviation engine shipments and non-military engine margins, reduced commercial spare parts sales and environmental remediation charges of \$108 million, partially offset by increased commercial aircraft engine program participation fees. The increased profitability in 1990 resulted primarily from increased non-military engine and spare parts sales, partially offset by lower commercial engine program participation fees and increased product warranty costs.

R&D Expenses
\$ Millions



Flight Systems segment operating profits decreased \$167 million in 1991 and increased \$64 million (243%) in 1990. In 1984, the Corporation's Norden subsidiary entered into a fixed-price contract to design, develop and produce an advanced radar system for the Israeli government. In the second quarter of 1991, the Corporation signed an agreement with the Israeli government which is intended to contain the Corporation's financial risk, while meeting the customer's operational requirements. The Corporation recorded a pre-tax charge of \$148 million related to this and other contract matters. The decrease in segment operating profits in 1991 resulted primarily from that charge and from charges of \$148 million for environmental remediation activities, partially offset by increased helicopter business volume. In 1990, improved profitability in the helicopter and aircraft products businesses resulted primarily from volume increases.

Building Systems segment operating profits decreased \$98 million (23%) and \$33 million (7%) in 1991 and 1990, respectively. The 1991 decrease is primarily attributable to reduced air conditioning business volume, increased price competition in the elevator and escalator business, and increased operating expenses in the air conditioning business, partially offset by increased service revenue volume in the elevator and escalator business. The 1990 decrease is attributable to reduced air conditioning business operating results in Brazil and in North America partially offset by increased elevator business revenues.

Automotive segment operating profits decreased \$89 million (59%) and \$6 million (4%) in 1991 and 1990, respectively. The 1991 decrease is primarily attributable to the significant reduction in North American automobile production and the divestiture of certain related businesses in 1990. The 1990 decrease was attributable to the adverse impact of the downturn in North American automobile production partially offset by a \$46 million gain on the sale of an operating unit.

Interest expense:

decreased 6% or \$23 million from 1990 to 1991;
increased 10% or \$32 million from 1989 to 1990.

The 1991 decrease is primarily attributable to a reduction in interest rate levels and a slight decrease in average borrowings in 1991.

The 1990 increase in interest expense reflects the Corporation's higher borrowing levels during the first half of the year, which were primarily attributable to the fourth-quarter 1989 acquisition of Sheller-Globe and the acquisition of shares of the Corporation's Common Stock in connection with the Employee Stock Ownership Plan (ESOP). Reductions in commercial paper borrowings occurred due to improved asset management while capital lease obligations associated with customer financing arrangements increased slightly.

The weighted-average interest rate on the Corporation's short-term borrowings in 1991 was 11.4% (10.6% in 1990 and 11.5% in 1989), and the average composite rate for short-term borrowings and long-term debt, excluding the ESOP debt guarantee, for 1991 was 8.9% (9.8% in 1990 and 10.2% in 1989). The average rate applicable to debt outstanding at December 31, 1991 was 10.9% for the short-term borrowings, and the average composite rate, including all long-term debt other than the ESOP debt guarantee, was 8.9%.

Net income (loss):

decreased \$1,772 million from 1990 to 1991;
increased \$49 million from 1989 to 1990.

In addition to the matters previously discussed, income taxes in 1991 were impacted by the geographic distribution of the Corporation's pre-tax income and losses, particularly losses in the United States. Under APB Opinion No. 11, "Accounting for Income Taxes", and with the significant amount of the domestic restructuring provision, the Corporation was unable to recognize approximately \$300 million of foreign tax credits generated in 1991 as a reduction of income tax expense.

The decline in the effective income tax rate from 39.5% in 1989 to 37.1% in 1990 was primarily attributable to relative increases in the portion of certain gains and earnings of international subsidiaries which were taxed at rates lower than the statutory U.S. federal income tax rate.

Liquidity and Financing Commitments

Management assesses the Corporation's liquidity in terms of its overall ability to mobilize cash to fund its operating and investing activities. Of particular importance in the management of liquidity are cash flows generated from operating activities; capital expenditure levels; adequate bank lines of credit; and financial flexibility to attract long-term capital on satisfactory terms.

Set forth below is selected key cash flow data from the Consolidated Statement of Cash Flows:

In Millions of Dollars	1991	1990	1989
Net Cash Flows from Operating Activities	\$ 1,890	\$ 1,333	\$ 1,129
Purchase of Fixed Assets	\$(1,048)	\$(1,200)	\$(1,023)
(Acquisitions)			
Dispositions of business units, net	(7)	305	(324)
Other investing activities	27	(248)	40
Net Cash Flows from Investing Activities	\$(1,028)	\$(1,143)	\$(1,307)
Net Cash Flows from Financing Activities	\$ (517)	\$ (255)	\$ 246

Net cash flows from operating activities in 1991 showed an increase from 1990 and 1989 levels primarily as a result of continued improvement in asset management and related reductions in net working capital. Cash outflows for restructuring costs were approximately \$80 million.

Net cash flows from investing activities in 1989 include \$367 million for the completion of the acquisition of Sheller-Globe, including debt acquired for cash. In connection with this transaction, the Corporation refinanced an additional \$252 million of Sheller-Globe debt.

The substantial fixed asset additions during the period 1989 through 1991 have been necessary to increase productivity, to modernize certain of the Corporation's facilities and to provide for expansion of some product lines. The great majority of these expenditures were for machinery and equipment and

were made across all business segments. Cash used for financing activities during the period included dividends to preferred and common shareowners and the purchase of the Corporation's Common Stock.

During the years ended December 31, 1991 and 1990, the Corporation met its net financing requirements by adjusting its level of short-term borrowings as required and issuing long-term debt when conditions were considered favorable. The results of the foregoing activities upon the Corporation's financial structure are shown in the following tabulation:

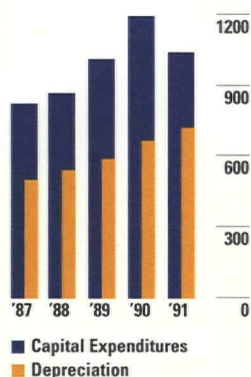
In Millions of Dollars	1991	1990
Short-term borrowings and current portion of long-term debt	\$ 490	\$ 660
Long-term debt	2,511	2,602
Capital lease obligations	392	300
Common shareowners' equity	3,961	5,343
Debt to total capitalization	46%	40%

The Corporation's ratio of debt to total capitalization reflects a 6% increase from 1990. This increase primarily results from the decrease in shareowners' equity caused by the loss for the year, partially offset by defeasance of debt scheduled for repayment in January 1992. The Corporation expects the costs of the restructuring actions will be funded from operations and from the cash flow benefits associated with the restructuring. Consequently, the Corporation's restructuring actions are not expected to result in significant increases in borrowing levels in the next two to three years.

The Corporation believes that existing sources of liquidity are adequate to meet anticipated short-term borrowing needs at similar risk-based interest rates for the foreseeable future. Although Moody's Investor Services and Standard & Poor's Corp. downgraded the Corporation's senior debt rating to A1 from Aa3 and to A+ from AA-, respectively, the Corporation does not believe its long-term borrowing costs will be materially impacted.

At December 31, 1991, the Corporation had credit commitments by banks totaling \$1.05 billion under a Revolving Credit Agreement through January 1, 1993. At December 31, 1991, there were no borrowings

Capital Expenditures and Depreciation
\$ Millions



under the Revolving Credit Agreement. Long-term financing will continue to be considered in the future if conditions are advantageous, and in that regard, under an effective Registration Statement on file with the Securities and Exchange Commission at December 31, 1991, up to \$371 million of medium-term and long-term debt of the Corporation might be issued.

In addition to the funds requirements discussed above, the Corporation had commitments to finance or arrange financing for customers at December 31, 1991 of approximately \$4.0 billion of commercial aircraft, of which up to \$887 million may be required to be disbursed in 1992.

Future Accounting Changes

The Financial Accounting Standards Board (FASB) issued a new accounting standard for income taxes (FAS 96) in December 1987 and subsequently delayed its required adoption date to January 1, 1993. The FASB issued a revised standard in February 1992 (FAS 109) which supersedes FAS 96. FAS 109 will have a required adoption date of no later than January 1, 1993, and it changes many of the requirements of FAS 96, particularly with respect to the recognition of the tax benefit of expenses to be deducted in future years for income tax purposes. While the impact of FAS 109 has not yet been determined, it is expected that, upon adoption, additional recognition of presently unrecognized tax benefits arising from the reported 1991 loss will result in a credit to earnings.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions." The effective date for required adoption of FAS 106 is 1993 for most U.S. plans and 1995 for all other plans, including non-U.S. plans. The Corporation and a number of its subsidiaries provide certain health care and life insurance benefits to retired employees and recognize the cost of providing those benefits as premiums are incurred. FAS 106 will no longer allow this approach, requiring instead the recognition of a liability as the benefits are earned during the employees' applicable years of service. FAS 106 permits recording the entire unrecognized obligation upon adoption or amortizing that unrecognized obligation over twenty years. While the Corporation

has not made a decision as to the method and date of adoption of FAS 106, the Corporation estimates that its current unrecognized obligation under FAS 106 is approximately \$650-\$750 million. If the Corporation were to have adopted FAS 106 in 1991, it estimates that pre-tax losses would have increased by \$80-\$120 million, depending on the method of adoption.

Environmental Matters

The Corporation has operations in several lines of business which involve the use, treatment, storage and disposal of substances regulated under various environmental protection laws. In this regard, the Corporation had expenditures related to environmental remediation activities of \$57 million in 1991 and \$48 million in 1990. Expenditures related to environmental remediation activities are expected to range between \$100 million and \$150 million in each of the next two years.

The Corporation is a potentially responsible party for environmental contamination at approximately 100 waste disposal sites, many of which relate to formerly-owned businesses. At the vast majority of these sites, there are additional parties who, based on the Corporation's evaluation of their financial viability, can be expected to contribute to the cleanup cost. Separately, the Corporation is currently involved in a number of actions at various sites to determine whether, and to what extent, remedial action is necessary to clean up hazardous wastes as required by federal and state law. As additional studies are performed and as remediation activities occur, new information may surface that could increase the ultimate costs of remediation.

The nature of the above matters makes it difficult to estimate the exact timing and ultimate amount of future environmental expenditures (remedial and otherwise). In addition, the Corporation has instituted legal proceedings against its insurers asserting insurance coverage for remediation activities. These proceedings are expected to last several years. No prediction can be made as to the outcome of these proceedings. Nonetheless, the Corporation believes that the level of environmental capital and remedial expenditures necessary to comply with present regulations governing environmental protection will not have a material effect upon its capital expenditures, competitive position, financial position or results of operations.

Late in 1990, amendments to the Clean Air Act were enacted. Since regulations implementing the provisions of these amendments have not been issued, the Corporation is currently unable to estimate the nature or level of future expenditures that may be required to comply with the new law.

Other Contingencies

As previously described, the Corporation's Norden subsidiary is involved in a fixed-price development contract for the Israeli government and has recorded loss provisions to date based on existing information and estimates. As further progress on the contract is made, new information may arise that could increase the ultimate contract costs.

Like a number of defense contractors, the Corporation and certain of its units continue to be the subject of ongoing criminal investigations in connection with their activities as a government contractor, including the investigation announced in 1988, known as "Operation Ill Wind," which involves defense contractors and certain of their consultants, executives and employees.

As part of the latter investigation, the Corporation was one of a number of defense contractors that had premises searched at several of its units and received grand jury subpoenas. The criminal investigation has led to prosecutions of certain contractors and is continuing with respect to other contractors, including Pratt & Whitney and Norden. In connection with this investigation, three former Norden employees pleaded guilty to violations of federal law. In June 1991, a former

consultant to the Corporation pleaded guilty to a number of charges, including a charge that, in April 1987, he converted government information concerning General Electric's proposal on the F404 engine procurement and conveyed that information to a Pratt & Whitney official.

If the Corporation were charged with wrongdoing as a result of any of these investigations, the Corporation or its business units could be suspended from eligibility for bidding on or for awards of new government contracts. Moreover, contracts found tainted by fraud could be voided, and the Corporation, if convicted, could be fined and debarred as a government contractor for a period generally not to exceed three years.

In June 1989, Sikorsky Aircraft submitted to the U.S. Government a voluntary disclosure report describing the conditions which gave rise to a \$75 million downward adjustment of progress payments in April 1988. Government representatives have been investigating the matter since that time. As a result, the Corporation believes it is probable that the U.S. Government will assert a claim for an amount in excess of the April 1988 progress payment adjustment. The Corporation has accrued an estimate of its liability for this matter based on available information, but it is unable to predict the timing of the claim and any resultant loss exposure in excess of amounts accrued.

Management believes that resolution of these matters will not have a material adverse effect on the financial position of the Corporation.

Comparative Stock Data

	1991			1990		
	High	Low	Dividend	High	Low	Dividend
Common Stock						
First Quarter	51	43 $\frac{1}{4}$	\$.45	59 $\frac{1}{4}$	48 $\frac{3}{8}$	\$.45
Second Quarter	50	43 $\frac{3}{8}$	.45	60 $\frac{3}{4}$	54 $\frac{1}{4}$	.45
Third Quarter	48 $\frac{7}{8}$	43 $\frac{5}{8}$	.45	62 $\frac{1}{2}$	40 $\frac{1}{8}$	.45
Fourth Quarter	54 $\frac{1}{4}$	42 $\frac{5}{8}$	.45	49 $\frac{3}{4}$	41 $\frac{7}{8}$	.45

The Corporation's Common Stock is listed on the New York Stock Exchange. The high and low prices are based on the Composite Tape. There were 35,400 Common shareowners of record at December 31, 1991.

Five-Year Summary

United Technologies Corporation

In Millions of Dollars (except per share amounts)

	1991	1990	1989	1988	1987
For the Year					
Sales from continuing operations	\$20,840	\$21,442	\$19,532	\$18,000	\$17,170
Percent to United States Government	21%	22%	24%	26%	27%
Cost of goods and services sold	16,387	16,015	14,382	13,337	12,665
Research and development	1,140	1,026	1,021	935	901
Selling, service and administrative	3,012	3,094	2,811	2,622	2,468
Interest expense	339	362	330	295	325
Restructuring provision	1,275	—	—	149	—
Income taxes	75	479	498	460	458
Net income (loss)	(1,021)	751	702	659	592
Earnings (loss) applicable to common stock	(1,083)	715	687	659	592
Earnings (loss) per share:					
Primary	(8.91)	5.91	5.34	5.05	4.52
Fully diluted	(8.91)	5.53	5.20	5.05	4.52
Cash dividends on common stock	219	218	206	202	183
Per share	1.80	1.80	1.60	1.55	1.40
Average number of shares of Common Stock outstanding (thousands):					
Primary	121,537	120,845	128,693	130,608	131,026
Fully converted	136,012	133,192	133,840	130,608	131,026
Return on average common shareowners' equity, after tax	(20.9)%	14.5%	14.2%	14.6%	14.7%

Prior years' amounts include reclassifications to conform with 1991 presentation.

Five-Year Summary

United Technologies Corporation

In Millions of Dollars (except per share amounts)

	1991	1990	1989	1988	1987
At Year End					
Net working capital	\$ 2,354	\$ 3,061	\$ 2,131	\$ 3,040	\$ 2,881
Current asset ratio	1.4 to 1	1.5 to 1	1.3 to 1	1.6 to 1	1.6 to 1
Total assets	15,985	15,918	14,598	12,748	12,873
Short-term borrowings	292	342	1,281	324	702
Long-term debt, including current portion	3,101	3,220	2,312	1,904	2,301
Debt to total capitalization	46%	40%	43%	32%	41%
ESOP preferred stock, net	126	81	—	—	—
Common shareowners' equity	3,961	5,343	4,739	4,822	4,291
Equity per common share	32.49	44.10	39.14	36.88	32.90
Business backlog	20,700	20,875	20,125	16,875	14,700
Number of employees:					
United States	98,000	108,100	115,100	109,900	115,200
International:					
Europe	41,800	38,200	38,300	33,400	34,300
Other	45,300	46,300	48,000	43,500	40,500
Total	185,100	192,600	201,400	186,800	190,000
Number of common shareowners	35,400	37,200	39,500	42,600	45,400

Equity per common share is based on shares outstanding at each year end.

Management's Responsibility for Financial Statements

The financial statements of United Technologies Corporation and subsidiaries, and all other information presented in this Annual Report, are the responsibility of the management of the Corporation. The financial statements have been prepared in accordance with generally accepted accounting principles.

Management is responsible for the integrity and objectivity of the financial statements, including estimates and judgments reflected in them. It fulfills this responsibility primarily by establishing and maintaining accounting systems and practices adequately supported by internal accounting controls. These controls include the selection and training of management and supervisory personnel; maintenance of an organizational structure providing for delegation of authority and establishment of responsibilities; communication of requirements for compliance with approved accounting, control and business practices throughout the organization; business planning and review; and a program of internal audit. Management believes the internal accounting controls in use provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are executed in accordance with management's authorizations, and that the financial records are reliable for the purpose of preparing financial statements.

Independent auditors are elected annually by the Corporation's shareowners to audit the financial statements in accordance with generally accepted auditing standards. Their report appears in this Annual Report. Their audits, as well as those of the Corporation's internal audit department, include a review of internal accounting controls and selective tests of transactions.

The Audit Review Committee of the Board of Directors, consisting of five directors who are not officers or employees of the Corporation, meets regularly with management, the independent accountants and the internal auditors, to review matters relating to financial reporting, internal accounting controls and auditing.

Report of Independent Accountants

To the Shareowners of United Technologies Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in shareowners' equity and of cash flows present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

One Financial Plaza
Hartford, Connecticut
January 20, 1992

Consolidated Statement of Operations

United Technologies Corporation

In Millions of Dollars (except per share amounts)	Years Ended December 31,		
	1991	1990	1989
Revenues			
Sales	\$20,840	\$21,442	\$19,532
Financing revenues and other income, less other deductions	422	346	272
	21,262	21,788	19,804
Costs and Expenses			
Cost of goods and services sold	16,387	16,015	14,382
Research and development	1,140	1,026	1,021
Selling, service and administrative	3,012	3,094	2,811
Interest	339	362	330
Restructuring provision	1,275	—	—
	22,153	20,497	18,544
Income (loss) before income taxes and minority interests	(891)	1,291	1,260
Income taxes	75	479	498
Income (loss) before minority interests	(966)	812	762
Less—Minority interests in subsidiaries' earnings	55	61	60
Net Income (Loss)	\$ (1,021)	\$ 751	\$ 702
Preferred Stock Dividend Requirement	\$ 62	\$ 36	\$ 15
Earnings (Loss) Applicable to Common Stock	\$ (1,083)	\$ 715	\$ 687
Per Share of Common Stock:			
Primary	\$ (8.91)	\$5.91	\$5.34
Fully Diluted	\$ (8.91)	\$5.53	\$5.20

See accompanying Notes to Financial Statements

Consolidated Balance Sheet

United Technologies Corporation

In Millions of Dollars

December 31,

	1991	1990
Assets		
Cash and short-term cash investments	\$ 523	\$ 201
Accounts receivable (net of allowance for doubtful accounts of \$141 and \$119)	3,371	3,676
Future income tax benefits	913	690
Inventories and contracts in progress	5,786	6,063
Less—Progress payments and billings on contracts in progress	(1,884)	(2,019)
Customer financing assets	55	138
Prepaid expenses	167	263
Total Current Assets	8,931	9,012
Investments and receivables due after one year	487	432
Customer financing assets	670	663
Fixed Assets, at cost:		
Land	164	149
Buildings and improvements	2,456	2,292
Machinery, tools and equipment	6,005	5,497
Under construction	608	651
	9,233	8,589
Less—Accumulated depreciation and amortization	(4,626)	(4,193)
	4,607	4,396
Deferred Charges:		
Costs in excess of net assets of acquired companies (net of accumulated amortization of \$203 and \$198)	630	701
Prepaid pension costs and other	660	714
	1,290	1,415
Total Assets	\$15,985	\$15,918
Liabilities and Shareowners' Equity		
Short-term borrowings	\$ 292	\$ 342
Accounts payable	1,839	1,948
Accrued salaries, wages and employee benefits	943	878
Accrued restructuring costs	488	—
Other accrued liabilities	1,758	1,476
Long-term debt—currently due	198	318
Income taxes currently payable	442	458
Advances on sales contracts	617	531
Total Current Liabilities	6,577	5,951
Deferred income taxes	230	353
Long-term debt	2,903	2,902
Other long-term liabilities	1,853	965
Commitments and contingent liabilities (Notes 5 and 12)		
Minority interests in subsidiary companies	335	323
Series A ESOP Convertible Preferred Stock, \$1 par value (Authorized—20,000,000 shares) Outstanding	852	859
—12,896,198 and 13,011,872 shares (Note 11)	(726)	(778)
ESOP deferred charge and note receivable (Note 11)	126	81
Common Shareowners' Equity:		
Capital Stock:		
Preferred Stock \$1 par value (Authorized—230,000,000 shares; none issued and outstanding)	—	—
Common Stock, \$5 par value (Authorized—500,000,000 shares)		
Issued—134,570,235 and 133,828,088 shares	1,878	1,850
Deferred foreign currency translation adjustments	(27)	81
Retained earnings	2,787	4,089
Cost of 12,672,108 common shares in treasury	(677)	(677)
Total Common Shareowners' Equity	3,961	5,343
Total Liabilities and Shareowners' Equity	\$15,985	\$15,918

See accompanying Notes to Financial Statements

Consolidated Statement of Cash Flows

United Technologies Corporation

In Millions of Dollars	Years Ended December 31,		
	1991	1990	1989
Cash flows from operating activities:			
Net income (loss)	\$(1,021)	\$ 751	\$ 702
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Restructuring provision	1,275	—	—
Environmental remediation provision, less portion in current liabilities	291	—	—
Depreciation	735	675	591
Amortization of goodwill	29	25	29
(Increase) decrease in:			
Accounts receivable and current customer financing assets	302	(425)	(620)
Inventories, net of progress payments	168	(182)	317
Prepaid expenses	96	12	(159)
Increase (decrease) in:			
Accounts and taxes payable, and accrued liabilities	252	605	233
Deferred taxes and future income tax benefits	(346)	(141)	103
Advances on sales contracts	84	8	(49)
Minority interests in subsidiaries' earnings	55	61	61
Gains from dispositions of business units	—	(91)	(20)
Other, net	(30)	35	(59)
Net Cash Flows from Operating Activities	<u>1,890</u>	<u>1,333</u>	<u>1,129</u>
Cash flows from investing activities:			
Purchase of fixed assets	(1,048)	(1,200)	(1,023)
Sale of fixed assets	64	79	61
Increase in customer financing assets	(81)	(337)	(19)
Decrease in customer financing assets	74	5	6
Investments—other companies	(31)	5	(9)
Acquisitions of business units	(7)	—	(388)
Dispositions of business units	—	305	64
Other, net	1	—	1
Net Cash Flows from Investing Activities	<u>(1,028)</u>	<u>(1,143)</u>	<u>(1,307)</u>
Cash flows from financing activities:			
Issuance of long-term debt	509	684	692
Repayments of long-term debt	(690)	(437)	(307)
Increase (decrease) in short-term borrowings	(64)	(929)	703
Collection of \$660 million ESOP note receivable	—	660	—
Decrease in ESOP note receivable and debt guarantee, net of \$7 million and \$3 million	45	81	—
ESOP preferred stock retirements	—	(83)	(594)
Common and Preferred stock purchases	28	77	52
Common Stock issued for employee stock plans and other	(281)	(254)	(227)
Dividends paid on Common and Preferred Stocks	(64)	(54)	(73)
Other, net	(517)	(255)	246
Net Cash Flows from Financing Activities	<u>(23)</u>	<u>(1)</u>	<u>(44)</u>
Effect of foreign exchange rate changes on cash and short-term cash investments	\$ 322	\$ (66)	\$ 24
Net Increase (Decrease) in Cash and Short-Term Cash Investments	\$ 322	\$ (66)	\$ 24
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	\$ 330	\$ 358	\$ 332
Income taxes paid	436	390	420
Non-cash investing and financing activities:			
Assets of businesses acquired	191	—	1,069
Liabilities of businesses acquired	155	—	647
Assets of businesses sold	—	409	47
Liabilities of businesses sold	—	157	6

In 1990 and 1989, the Corporation issued 2.9 million and 10.2 million shares, respectively, of a new series of preferred stock to a newly established Employee Stock Ownership Plan (ESOP) in exchange for promissory notes aggregating \$202 million and \$660 million, respectively. In 1990, the \$660 million promissory note was repaid to the Corporation with proceeds from permanent financing guaranteed by the Corporation. See Note 11. The Corporation also refinanced \$252 million of debt in connection with the acquisition of Sheller-Globe. See Note 3.

See accompanying Notes to Financial Statements

Consolidated Statement of Changes In Shareowners' Equity

Three Years Ended December 31, 1991

Balance December 31, 1988

Issued under employee incentive plans, and related tax benefit (1,329,300 shares of Common Stock, net of 284,921 shares purchased and reissued)

Redemption and purchase of 17 shares of Preferred Stock

Purchase of 11,002,100 shares of Common Stock

Deferred foreign currency translation adjustments:

Translation and hedging adjustments, net of income tax benefits of \$3 million

Sale of foreign investments

Net income

Dividends on—Common Stock (\$1.60 per share)

—ESOP Preferred Stock (\$4.80 per share), net of income tax benefits of \$9 million

Balance December 31, 1989

Issued under employee incentive plans, and related tax benefit (1,734,364 shares of Common Stock, net of 374,184 shares purchased and reissued)

Redemption and purchase of 9,036 shares of Preferred Stock

Purchase of 1,670,008 shares of Common Stock

Deferred foreign currency translation adjustments:

Translation and hedging adjustments, net of income tax benefits of \$11 million

Sale of foreign investments

Net income

Dividends on—Common Stock (\$1.80 per share)

—ESOP Preferred Stock (\$4.80 per share), net of income tax benefits of \$23 million

Balance December 31, 1990

Issued under employee incentive plans, with no tax benefit (742,147 shares of Common Stock, net of 25,761 shares purchased and reissued)

Deferred foreign currency translation adjustments:

Translation and hedging adjustments, with no tax benefit

Sale of foreign investments

Net loss

Dividends on—Common Stock (\$1.80 per share)

—ESOP Preferred Stock (\$4.80 per share), with no tax benefit

Balance December 31, 1991

See accompanying Notes to Financial Statements

In Millions of Dollars

\$4.50 Preferred Stock	Common Stock	Deferred Translation Adjustments	Treasury Stock	Retained Earnings
\$ 1	\$1,720 53	\$ (14)	\$ —	\$3,116 (1)
—		(23) 1	(594)	702 (206) (15)
1 (1)	1,773 77	(36)	(594) (83)	3,596 (4)
		127 (10)		751 (218) (36)
—	1,850 28	81 (107) (1)	(677)	4,089
				(1,021) (219) (62)
\$ —	\$1,878	\$ (27)	\$(677)	\$2,787

Notes to Financial Statements

Note 1

Summary of Accounting Principles: The consolidated financial statements include the accounts of the Corporation and its subsidiaries. International operating subsidiaries are included generally on the basis of fiscal years ending November 30. Certain reclassifications have been made to 1990 and 1989 amounts to conform with 1991 presentation.

Sales under government and commercial fixed-price contracts and government fixed-price-incentive contracts are recorded at the time deliveries are made or, in some cases, on a percentage of completion basis. Sales under cost-reimbursement contracts are recorded as work is performed and billed. Sales of commercial aircraft engines sometimes require significant participation by the Corporation in aircraft financing arrangements; when appropriate, such sales are accounted for as operating leases. Sales under elevator and escalator installation and modernization contracts are accounted for under the percentage of completion method. Service contract revenues are recorded as sales when earned.

Inventories and contracts in progress are stated at the lower of cost or estimated realizable value. Inventories consist primarily of raw materials and work in process. Materials in excess of requirements for contracts and orders currently in effect or anticipated have been eliminated. A considerable portion of inventories is based on cost standards which are adjusted to reflect approximate current costs. The remainder of inventories is stated either at average cost or at actual cost accumulated against specific contracts or orders or, in the case of a substantial portion of inventories in the building systems and automotive businesses, at last-in, first-out (LIFO) cost. Manufacturing tooling costs are charged to inventories or to fixed assets depending upon their nature, general applicability and useful lives. Tooling costs included in inventory are charged to cost of sales based on usage, generally within two years after they enter productive use. All other manufacturing costs are allocated to current production; no such costs are deferred and assigned to future production.

Contracts in progress relate to elevator and escalator contracts and include standard cost of manufactured components, accumulated installation costs and estimated earnings on uncompleted contracts.

Prospective losses, if any, on contracts are provided for when the losses become anticipated. Loss provisions are based upon any anticipated excess of inventoriable manufacturing or engineering cost and estimated warranty costs over the net revenue from the products contemplated by the specific order.

Provisions for depreciation of plant and equipment related to the Corporation's aerospace operations have generally been made using accelerated methods. Provisions for depreciation of other plant and equipment have generally been made using the straight-line method. Estimated useful lives generally range from 30 to 50 years for buildings and improvements, from 8 to 20 years for machinery and equipment, and from 5 to 10 years for office equipment. Improvements to leased property are amortized over the life of the lease.

Provisions for environmental remediation activities are recorded when assessments are made, remedial efforts are probable and related amounts can be reasonably estimated; potential insurance reimbursements are not recorded. The Corporation periodically assesses its environmental liabilities through reviews of contractual commitments, site assessments, feasibility studies and formal remedial design and action plans.

Research and development costs not specifically covered by contracts and those related to the Corporation-sponsored share of research and development activity in connection with cost-sharing arrangements are charged to operations as incurred. General and administrative expenses also are charged to operations as incurred. Costs pertaining to fulfillment of the Corporation's warranty and service policies and product guarantees are estimated on the basis of past experience and current product performance and, where believed to be significant and reasonably predictable in amount, are accrued at the time products are sold.

Costs in excess of values assigned to the underlying net assets of acquired companies are included in deferred charges and are generally being amortized over periods ranging from 25 to 40 years.

The Corporation enters into a variety of interest rate futures, options, currency swaps and forward contracts in its management of interest rate and foreign currency committed exposures. Realized and

unrealized gains and losses are deferred and either recognized as interest expense over the borrowing period or recognized in Share-owners' Equity, depending on the exposure hedged.

The Corporation enters into forward foreign exchange contracts to hedge foreign currency denominated receivables and payables. Such contracts generally have maturities of one year or less and the counterparties are typically major international financial institutions. Cash flows attributable to the forward foreign exchange contracts are generally included with the cash flows from the associated hedged receivables or payables.

Provisions for income taxes are based upon income and expenses recorded in accordance with the Corporation's regular accounting practices and as shown in the financial statements. The income tax effects of differences in the time when items of income and expense are reflected in accordance with such regular accounting practices and the time they are recognized for income tax purposes are shown in the balance sheet as future income tax benefits or as deferred income taxes, as appropriate.

Primary earnings per share computations are based on the average number of shares of Common Stock outstanding during the year. Fully diluted earnings per share reflect the maximum dilution of per share earnings, if applicable, which would have occurred if all the ESOP Convertible Preferred Stock of the Corporation had been converted as of the date of issue. Each share of the ESOP preferred stock is convertible into one share of Common Stock. A reduction in earnings applicable to common shares is required in the calculation of fully diluted earnings per share representing the Corporation's assumed additional contribution to the ESOP to enable it to meet its debt repayment responsibilities were the preferred dividends not available for this purpose.

Current assets and current liabilities include items expected to be, or which may be, realized or liquidated during the next year.

Short-term cash investments are highly liquid in nature and considered cash equivalents within the requirements of Financial Accounting Standard No. 95, "Statement of Cash Flows."

Note 2

Restructuring and Employee Severance Plans: In August 1991, the Corporation announced a goal of reducing its overall operating costs by \$1 billion a year beginning in 1994. Throughout the remainder of 1991, the Corporation's businesses developed specific restructuring plans and actions to be implemented primarily over the next two

years, but extending to four years for certain actions, in order to meet that goal. On January 20, 1992, the Corporation's Board of Directors approved the restructuring plans which resulted in a \$1.275 billion pre-tax (\$1.21 billion after-tax, or \$10.06 per share) charge to operations. The restructuring actions include eliminating approximately 13,900 jobs, closing or consolidating facilities, and improving design, engineering and manufacturing processes. The restructuring charge includes \$423 million for employee severance and \$852 million for facility closure, consolidation and process improvements.

Note 3

Acquisition: In December 1988, the Corporation purchased an initial 46% equity interest in Sheller-Globe Corporation (Sheller). In the fourth quarter of 1989, the Corporation completed the acquisition of Sheller. The results of Sheller's operations were accounted for under the equity method in 1989, and Sheller's financial position and results of operations have been consolidated in the Corporation's financial statements from December 31, 1989. Goodwill recognized in the acquisition is being amortized over 40 years. The Corporation's pro forma earnings, as if the acquisition had been made on January 1, 1989, would not be materially different from reported results.

Note 4

International Operations: A substantial portion of the Corporation's revenues and assets is attributable to international operations. The Corporation has significant manufacturing facilities in Canada, Italy, France, Japan, South Korea, Spain, the United Kingdom and Germany and operations of lesser size in a number of other countries. At December 31, 1991, the investment (identifiable assets) in any single country other than the United States did not exceed 5% of the Corporation's total identifiable assets, except for investments in Canada which amounted to slightly more than 5% of total identifiable assets.

Amounts included in the accompanying consolidated financial statements associated with operations outside the United States consist of the following:

In Millions of Dollars	1991	1990	1989
Sales	\$7,720	\$7,534	\$6,065
Net income	179	410	322
Assets	5,096	4,693	4,178
Liabilities	2,758	2,446	2,271
Minority interests	328	322	273

The financial position and results of operations of substantially all of the Corporation's significant foreign subsidiaries are measured using local currency as the functional currency. The aggregate effects of translating the financial statements of these subsidiaries are deferred as a separate component of Shareowners' Equity. At December 31, 1991, the Corporation had \$502 million of outstanding currency swaps and forward foreign exchange contracts to hedge its foreign net investment exposures. In addition, at December 31, 1991 and 1990, the Corporation had \$1.9 billion and \$1.1 billion, respectively, of forward foreign exchange contracts hedging other foreign currency exposures.

Earnings were charged with foreign exchange losses, including gains and losses of operations in highly inflationary economies, of \$22 million, \$21 million and \$37 million in 1991, 1990, and 1989, respectively.

Note 5

Customer Financing Activity: Customer financing assets consist of the following:

In Millions of Dollars	1991	1990
Notes and accounts receivable	\$249	\$406
Leases receivable, less unearned income of \$12 and \$17	88	84
Products under lease	388	311
	725	801
Less: receivables due within one year	(55)	(138)
	\$670	\$663

Scheduled maturities, in millions of dollars, of the notes and leases receivable due after one year for the next five years are \$47 in 1993, \$49 in 1994, \$26 in 1995, \$125 in 1996 and \$35 in 1997 and thereafter.

As of December 31, 1991, customer aircraft financing activities are conducted principally through UT Finance Corporation, its two consolidated subsidiaries and certain other customer financing operations.

Summary financial data for these subsidiaries follows:

In Millions of Dollars	1991	1990	1989
Operating revenues	\$113	\$107	\$108
Expenses	102	85	88
Net Income	\$ 11	\$ 22	\$ 20
Assets:			
Intercompany receivables, net	\$232	\$289	
Financing assets	569	592	
Other Assets	13	11	
Total Assets	\$814	\$892	
Liabilities and Shareholder's Equity:			
Long-term debt	\$561	\$504	
Other Liabilities	58	45	
Total Liabilities	619	549	
Shareholder's Equity	195	343	
Total Liabilities and Shareholder's Equity	\$814	\$892	

The Corporation's customer finance activities include leasing aircraft under operating lease agreements and subleasing the aircraft to customers, primarily under a lease agreement cancelable within one year upon notice by the customer. At December 31, 1991, rental commitments under those long-term noncancelable leases aggregated \$494 million (\$42 million in each of the years 1992 through 1996).

The competitive commercial aircraft engine market often requires customer financing commitments. These commitments may be in the form of secured guarantees, secured debt or lease financing. At December 31, 1991, the Corporation had commitments to finance or arrange financing for approximately \$4.0 billion of commercial aircraft. The Corporation cannot currently predict the extent to which these commitments will be utilized, since certain customers may be able to obtain more favorable terms using traditional financing sources. From time to time, the Corporation also arranges for third party investors to assume a portion of its commitments. However, should all current commitments be exercised as scheduled, the maximum amounts that will be disbursed are as follows: \$887 million in 1992, \$390 million in 1993, \$1.4 billion in 1994, \$300 million in 1995, \$842 million in 1996 and \$200 million in 1997 and beyond.

At December 31, 1991, the Corporation had approximately \$574 million of residual value and other guarantees related to various

customer financing arrangements, principally for commercial aircraft engine customers. These guarantees may extend for fifteen years or more and may have been used by the customers to obtain more favorable financing terms than would otherwise be available. Where applicable, the estimated fair market values of the assets securing these guarantees equaled or exceeded the related guarantee amount at December 31, 1991. As with financing commitments, the Corporation may arrange for third party investors to assume a portion of its guarantees.

Note 6

Inventories and Contracts in Progress: Inventories and contracts in progress at December 31, 1991 consist of inventories of \$4,474 million (\$4,765 million at December 31, 1990) and elevator and escalator contracts in progress of \$1,312 million (\$1,298 million at December 31, 1990).

The methods of accounting followed by the Corporation do not permit classification of inventories by categories of finished goods, work in process and raw materials. The Corporation's sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months. Approximately 61% (65% at December 31, 1990) of total inventories and contracts in progress has been acquired or manufactured under such long-term contracts. It is impracticable for the Corporation to determine the amounts of inventory scheduled for delivery under long-term contracts within the next twelve months.

The principal elements of cost included in inventories are materials, purchased components, direct labor and manufacturing overhead (engineering overhead in the case of engineering contracts). Tooling and other costs are an insignificant portion of inventories.

A substantial portion of the Corporation's inventories in its Building Systems and Automotive businesses is valued under the LIFO method. If these inventories had been valued at the lower of replacement value or cost under the first-in, first-out method, they would have been higher by \$139 million at December 31, 1991 (\$143 million at December 31, 1990).

The book basis of LIFO inventories exceeded the tax basis of such inventories by approximately \$57 million and \$58 million at December 31, 1991 and 1990, respectively, resulting from the assignment of fair value to inventories acquired in a business acquisition accounted for under the purchase method of accounting.

At December 31, 1991, progress payments, secured by lien, on United States Government contracts and billings on contracts in

progress amounted to \$459 million (\$521 million at December 31, 1990) and \$1,425 million (\$1,498 million at December 31, 1990), respectively, at December 31, 1991.

Note 7

Investments and Receivables Due After One Year: Investments and receivables due after one year consist of the following:

In Millions of Dollars	1991	1990
Receivables due after one year	\$267	\$222
Investments	220	210
	\$487	\$432

Current and long-term accounts receivable at December 31, 1991 and 1990 include approximately \$186 million and \$309 million, respectively, representing retainage under contract provisions and amounts which are not presently billable because of lack of funding or final prices or contractual documents under government contracts or for other reasons. These items are expected to be collected in the normal course of business.

Note 8

Borrowings and Lines of Credit: The following summarizes the short-term borrowings and lines of credit, long-term debt and interest expense of the Corporation and its subsidiaries.

Short-term borrowings:

In Millions of Dollars	1991	1990
Foreign bank borrowings	\$289	\$156
Commercial paper and notes	3	186
	\$292	\$342

At December 31, 1991, the Corporation had credit commitments from banks totaling \$1.05 billion under a Revolving Credit Agreement. The Revolving Credit Agreement provides for borrowings through January 1, 1993, at interest rates up to the prime rate and for a facility fee of 1/8% per year on the aggregate commitment. There were no borrowings under the Revolving Credit Agreement at December 31, 1991 and 1990.

Long-term debt:

Type of Issue	1991 Debt		Amount (in millions)	
	Weighted Average Interest Rate	Maturity	1991	1990
Denominated in U.S. Dollars:				
Notes and other debt	8.6%	1993-2021	\$1,609	\$1,511
Sinking fund debt	8.8	1994-2016	219	255
Denominated in foreign currency:				
Notes and other debt	14.9	1993-2002	96	217
Capital lease obligations	7.2	1993-2002	392	300
ESOP debt guarantee	7.6	1993-2009	587	619
Total long-term debt			\$2,903	\$2,902

In December 1991, the Corporation defeased approximately \$349 million of debt scheduled for repayment in January 1992. At December 31, 1991, the Corporation had entered into various interest rate swap contracts (including options thereon) related to approximately \$428 million of its outstanding borrowings. The expiration dates of the various contracts are tied to scheduled debt or capital lease obligation payment dates and extend to 2000.

Principal payments required on long-term debt for the next five years are \$198 million in 1992, \$434 million in 1993, \$267 million in 1994, \$258 million in 1995 and \$235 million in 1996.

Capitalized interest: During 1991, the Corporation and its consolidated subsidiaries capitalized \$70 million (\$60 million in 1990 and \$61 million in 1989) of interest, to be depreciated over the lives of the related fixed assets.

Note 9

Taxes on Income: The provision for income taxes for each of the three years ended December 31 comprises the following:

In Millions of Dollars	1991	1990	1989
Current:			
United States:			
Federal	\$ 138	\$ 262	\$165
State	48	73	54
Foreign	246	280	248
	<u>432</u>	<u>615</u>	<u>467</u>
Deferred:			
United States:			
Federal	(275)	(126)	22
State	(31)	(28)	8
Foreign	(51)	18	1
	<u>(357)</u>	<u>(136)</u>	<u>31</u>
Total	\$ 75	\$ 479	\$498

Deferred income taxes represent the tax effects of transactions which are reported in different periods for financial and tax reporting purposes. Changes in deferred U.S. federal, state and foreign income taxes shown in the income tax provisions include the income tax effects of:

In Millions of Dollars	1991	1990	1989
Use of completed-contract method for reporting taxable income	\$ (23)	\$ (50)	\$ 33
Tax depreciation and foreign capital allowances	(23)	14	30
Capitalization of interest cost, less related depreciation	11	9	11
Adjustment of inventories and contract losses to tax basis	7	(5)	(103)
Provisions for warranty	(34)	(13)	(23)
Insurance and employee benefits	(107)	(92)	64
Customer allowances	11	41	14
Restructuring provision	(59)	—	—
Lease transactions, finance subsidiaries	14	15	(1)
Alternative minimum tax	—	11	(15)
Environmental remediation provisions	(102)	(31)	(5)
Other items, net	(52)	(35)	26
	\$(357)	\$(136)	\$ 31

The sources of income (loss) before income taxes were:

In Millions of Dollars	1991	1990	1989
United States	\$(1,311)	\$ 559	\$ 634
Foreign	420	732	626
	\$ (891)	\$1,291	\$1,260

Deferred income taxes generally have not been provided on undistributed earnings of international subsidiaries, of \$486 million, which are included in consolidated retained earnings at December 31, 1991. A substantial portion of the undistributed earnings of the

international subsidiaries has been reinvested, and the Corporation believes that income taxes otherwise payable upon repatriation of earnings not reinvested would be largely offset by available foreign tax credits.

Differences between effective income tax rates and the statutory U.S. federal income tax rates are as follows:

	1991	1990	1989
Statutory U.S. federal income tax rate	(34.0%)	34.0%	34.0%
State and local income taxes, net of federal tax benefit	1.3	2.3	3.2
Varying tax rates of consolidated subsidiaries (including Foreign Sales Corporation)	7.1	(.5)	.2
Amortization of excess purchase accounting adjustments, without tax effect	.4	.2	.6
Unused foreign tax credits	33.5	—	—
Other	.1	1.1	1.5
Effective income tax rates	8.4%	37.1%	39.5%

At December 31, 1991, the Corporation has approximately \$300 million of foreign tax credit carryforwards for financial reporting purposes. Such foreign tax credits were however, used to reduce actual income taxes payable at December 31, 1991.

The Financial Accounting Standards Board (FASB) issued a new accounting standard for income taxes (FAS 96) in December 1987 and subsequently delayed its required adoption date to January 1, 1993. The FASB issued a revised standard in February 1992 (FAS 109) which supersedes FAS 96. FAS 109 will have a required adoption date of no later than January 1, 1993, and it changes many of the requirements of FAS 96, particularly with respect to the recognition of the tax benefit of expenses to be deducted in future years for income tax purposes. While the impact of FAS 109 has not yet been determined, it is expected that, upon adoption, additional recognition of presently unrecognized tax benefits arising from the reported 1991 loss will result in a credit to earnings.

Note 10

Shareowners' Equity: At December 31, 1991, 9,159,490 shares of Common Stock were reserved for issuance under various employee incentive plans. See Note 11.

A Common Stock Purchase Right is attached to each share of Common Stock. Each Right entitles shareowners to buy, under certain circumstances, one newly issued share of the Corporation's Common Stock at an exercise price of \$150. The Rights will be exercisable only if a person or group acquires 20% or more of the Corporation's Common Stock or announces a tender or exchange offer for 30% or more of the Common Stock. If the Corporation is acquired in a merger or other business combination transaction, each Right will entitle its holder to purchase, for \$150, a number of the acquiring company's common shares having a market value of \$300. The Corporation will be entitled to redeem the Rights at 10 cents per Right prior to the earlier of the expiration of the Rights in January 1996 or the time that a 20% position has been acquired. Until the Rights become exercisable, they have no dilutive effect on the earnings per share of the Corporation. At December 31, 1991, 131,057,617 shares of Common Stock were reserved for issuance upon the exercise of these Rights.

The terms of the indentures relating to certain issues of long-term debt include provisions intended to restrict, under certain conditions, the availability of retained earnings for payment of dividends on the Common Stock. At December 31, 1991, all of the Corporation's retained earnings were free of such restrictions.

Note 11

Employee Benefit Plans:

Employee Pension Benefits: The Corporation and its domestic subsidiaries have a number of defined benefit pension plans covering substantially all U.S. employees. Plan benefits are generally based on years of service and the employee's compensation during the last several years of employment. The Corporation's funding policy is based on an actuarially determined cost method allowable under Internal Revenue Service regulations. The funds are invested either in various securities by trustees or in insurance annuity contracts. Certain foreign subsidiaries have defined benefit pension plans or severance indemnity plans covering their employees. The Corporation accounts for the cost of its

defined benefit plans in accordance with Financial Accounting Standard No. 87 (FAS 87), "Employers' Accounting for Pensions."

In addition to the defined benefit plans covering U.S. and foreign employees discussed above, the Corporation makes contributions to multiemployer plans (predominantly defined benefit plans) covering certain employees in some of its U.S. operations. Certain additional employees, primarily located in foreign countries, are covered by retirement arrangements which do not meet the reporting requirements of FAS 87.

Summarized below are the components of net periodic pension cost for defined benefit plans, net pension cost for multiemployer plans and other costs for pension and severance indemnity plans:

In Millions of Dollars	1991	1990	1989
Defined benefit plans:			
Service cost-benefits earned during the period	\$ 210	\$ 218	\$ 182
Interest cost on projected benefit obligation	524	493	422
Actual return on plan assets-investment losses/(gains)	(1,198)	425	(1,042)
Net amortization and deferral of actuarial (losses)/gains	508	(1,088)	444
Net periodic pension cost	\$ 44	\$ 48	\$ 6
Net pension cost:			
Multiemployer plans	\$ 21	\$ 23	\$ 23
Other costs	\$ 22	\$ 13	\$ 13

Summarized in the table on the following page is the funded status of the defined benefit pension plans and the related amounts that are recognized in the consolidated balance sheet at December 31:

In Millions of Dollars

December 31, 1991

December 31, 1990

	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested	\$5,056	\$ 142	\$4,451	\$ 160
Nonvested	319	6	270	12
Accumulated benefit obligation	5,375	148	4,721	172
Effect of projected future salary increases	1,033	56	1,020	63
Projected benefit obligation for services rendered to date	6,408	204	5,741	235
Plan assets available for benefits	6,837	35	5,927	60
Plan assets in excess of (less than) projected benefit obligation	429	(169)	186	(175)
Unrecognized net loss (gain)	(260)	(2)	40	(9)
Prior service cost not yet recognized in net periodic pension cost	226	(7)	260	12
Unrecognized net (asset) obligation at transition	(241)	60	(270)	67
Additional minimum liability recognized	—	(9)	—	(22)
Prepaid pension cost (pension liability) included in deferred charges (other long-term liabilities)	\$ 154	\$(127)	\$ 216	\$(127)

The pension funds are valued at September 30 of the respective years in the table above. Major assumptions used in the accounting for the defined benefit pension plans are shown in the following table. Net periodic pension cost is determined using these factors as of the end of the prior year, whereas the funded status of the plans uses only the first two factors as of the end of the current year.

	December 31,			
	1991	1990	1989	1988
Weighted-average discount rate	8.6%	9.0%	8.5%	8.5%
Rate of increase in future compensation	6.1%	7.0%	7.0%	7.0%
Expected long-term rate of return on assets	10.5%	10.5%	10.5%	10.5%

In 1991, 1990 and 1989, in accordance with FAS 88, the Corporation recognized net gains/(losses) of \$(54) million, \$1 million, and \$(6) million, respectively. These financial impacts resulted from the reduction in the projected benefit obligations for certain employees affected by reductions in personnel at several operating units (1991 and 1990) and from enhanced early retirement benefits (1991 and 1989).

Certain of the Corporation's international subsidiaries generally do not determine the actuarial value of accumulated benefits and the value of net assets on the basis shown above. For these plans, unfunded vested benefits as of December 31, 1991 and 1990 were insignificant. Unfunded liabilities for pension plans of certain international subsidiaries and for employee severance benefits, including those accruing to employees under foreign government regulations, are included in other long-term liabilities in the accompanying balance sheet.

Employee Health Care and Insurance Benefits: In addition to providing pension benefits, the Corporation and a number of its subsidiaries provide certain health care and life insurance benefits for active and retired employees. Such benefits are provided through insurance companies whose premiums are based upon the benefits paid during the year. The Corporation recognizes the cost of providing those benefits by charging to expense the annual insurance premiums, less any employee contributions, which in 1991 were approximately \$473 million (\$485 million in 1990 and \$430 million in 1989). The annual cash cost of providing benefits for retirees is not significant.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions." The effective date for required adoption of FAS 106 is 1993 for most U.S. plans and 1995 for all other plans, including non-U.S. plans. FAS 106 will no longer allow the Corporation to recognize retiree benefits as net premiums are incurred, requiring instead the recognition of a liability as the benefits are earned during the employees' applicable years of service. FAS 106 permits recording the entire unrecognized obligation at adoption or amortizing that unrecognized obligation over twenty years. While the Corporation has not made a decision as to the method and date of adoption of FAS 106, the Corporation estimates that its current unrecognized obligation is approximately \$650-\$750 million. If the Corporation were to have adopted FAS 106 in 1991, it estimates that pre-tax losses would have increased by \$80-\$120 million, depending on the method of adoption.

Employee Incentive Plans: On April 24, 1989, the Corporation's shareowners approved the Long-Term Incentive Plan (1989 Plan) under which shares of Common Stock may be sold or awarded to officers and key employees. The 1989 Plan in effect replaced the 1979 Long-Term Incentive Plan (1979 Plan). The 1989 Plan also had the effect of amending the terms of all grants and awards under the 1979 Plan that remain outstanding inasmuch as they shall be administered in accordance with the terms and provisions of the 1989 Plan.

The 1989 Plan authorized various types of market-based incentive and performance-based awards. The exercise price of an option, which will be set at the time of the grant, will not be less than the fair market value of the shares subject thereto on the date of grant. The maximum number of shares which may be utilized for awards granted during a given calendar year may not exceed 2% of the aggregate shares of Common Stock, Common Stock equivalents and Treasury shares as reported outstanding in the Annual Report on Form 10-K for the preceding fiscal year.

The 1979 Plan provided for the granting of Stock Appreciation Rights linked with stock options granted under either the 1979 Plan or the 1976 Plan. The exercise of either a Stock Appreciation Right or a stock option automatically cancels the connected option or right. The 1979 Plan also provided for the granting of Performance Units. All such Stock Appreciation Rights and Performance Units were either exercised or cancelled in 1989.

A summary of the transactions under all Plans for the three years ended December 31 follows:

	Stock Options		Stock Appreciation Rights		Other Incentive Awards
	Shares	Average Price	Rights	Average Price	Awards
Outstanding—December 31, 1988	10,372,139	\$39.32	546,147	\$44.41	507,090
Granted	1,390,305	\$51.25	—		133,569
Exercised/earned	(1,595,086)	\$35.33	(44,635)	\$46.85	—
Cancelled	(148,548)	\$42.52	(501,512)	\$44.19	(515,890)
Outstanding—December 31, 1989	10,018,810	\$41.56	—		124,769
Granted	427,950	\$50.05	—		238,149
Exercised/earned	(1,998,332)	\$39.94	—		(89,082)
Cancelled	(284,423)	\$43.86	—		(26,737)
Outstanding—December 31, 1990	8,164,005	\$42.32	—		247,099
Granted	1,438,054	\$48.92	—		654,816
Exercised/earned	(705,691)	\$33.21	—		(68,157)
Cancelled	(192,996)	\$47.88	—		(149,197)
Outstanding—December 31, 1991	8,703,372	\$44.03	—		684,561

At December 31, 1991, stock options for 5,417,068 shares of Common Stock were exercisable at an average price of \$40.48 per share.

For 1991, \$54 million (\$48 million in 1990 and \$49 million in 1989) was charged to income with respect to employee incentive plans of the Corporation and certain of its subsidiaries, of which \$24 million (\$34 million in 1990 and \$32 million in 1989) was accrued under the Corporation's principal incentive compensation plan, and the remainder was accrued under the 1989 Plan and other plans.

Employee Savings Plans: In 1989, the Corporation established an Employee Stock Ownership Plan (ESOP) to serve as the vehicle for the Corporation's match of employee contributions within one of its existing savings plans. The Corporation's Board of Directors authorized 20,000,000 shares of preferred stock, par value \$1.00 per share, designated as Series A ESOP Convertible Preferred Stock, having a 7.38 percent dividend rate per annum. Each share of ESOP preferred stock is convertible into one share of common stock. In 1990 and 1989, the ESOP Trust acquired 2,900,000 and 10,153,847 shares of this new series of preferred stock, respectively, in exchange for individual promissory notes aggregating \$202 million and \$660 million, respectively. In 1990, the ESOP Trust arranged \$660 million of permanent financing guaranteed by the Corporation and repaid the

note issued in 1989. The Corporation has no intention at this time of arranging permanent financing for the remaining balance of the 10.5% \$202 million promissory note.

The guarantee of the ESOP's debt resulted in the Corporation recording such debt in its consolidated balance sheet with a corresponding offset to the ESOP preferred stock. The Corporation is required to contribute sufficient funds, when combined with dividends paid on the ESOP Preferred Stock, to meet the ESOP trust's debt service requirements on the permanent financing and promissory note. In 1991 and 1990, the ESOP incurred interest expense aggregating \$62 million and \$66 million, respectively, on its outstanding indebtedness. In 1991, the ESOP made principal payments of \$25 million and \$27 million on its permanent financing and promissory note, respectively.

Shares of ESOP preferred stock are held by the ESOP Trustee with the number of shares allocated to each employee determined annually in accordance with a method approved by the Internal Revenue Service. To the extent that allocated shares are not sufficient to meet the matching requirement of the savings plan, the Corporation will contribute additional ESOP preferred stock, common stock or cash.

Shares allocated to employees generally may not be withdrawn until the employee's termination, disability, retirement or death. Upon withdrawal, shares of ESOP preferred stock must be converted into one share of the Corporation's common stock or, if the value of the common stock is less than the original cost of the ESOP preferred stock, the ESOP Trustee may require the Corporation to repurchase the ESOP preferred stock at its original cost. Because of the guaranteed value, the ESOP preferred stock is classified outside of permanent equity. In conjunction with the establishment of the ESOP, the Corporation purchased approximately 1.7 million shares and 10.4 million shares of its common stock in 1990 and 1989, respectively, at a combined average cost of \$53.48 per share to substantially provide for the conversion feature of the preferred stock.

Dividends on ESOP preferred stock are deductible for U.S. income tax purposes. Tax benefits available to the Corporation resulting from such dividends are applied as a reduction of the preferred stock dividends in the financial statements.

The ESOP preferred stock is redeemable, in whole or in part, generally at the option of the Corporation at redemption prices ranging from \$68.84-\$69.77 per share plus accrued and unpaid dividends. At December 31, 1991, the aggregate redemption value of the ESOP preferred stock was \$890 million.

Contributions to the ESOP together with the value of additional ESOP preferred stock, common stock or cash necessary to satisfy the savings plan matching requirement are charged to expense. The Corporation and a number of its subsidiaries have additional savings plans in which a portion of employee contributions is matched in cash by the employer. The amount expensed related to all savings plans totaled \$88 million in 1991 (\$91 million in 1990 and \$63 million in 1989).

Note 12

Commitments and Contingent Liabilities: The Corporation and its consolidated subsidiaries occupy space and use certain equipment under lease arrangements. Rent expense in 1991, 1990 and 1989 under such arrangements totaled \$389 million, \$380 million and \$343 million, respectively. Rental commitments at December 31, 1991 under long-term noncancelable operating leases are as follows (See Note 5 for lease commitments associated with customer financing arrangements):

In Millions of Dollars	Land, Buildings and Office Space	Machinery, Tools and Equipment
1992	\$146	\$114
1993	118	76
1994	92	32
1995	64	9
1996	49	3
After 1996	185	5
	<u>\$654</u>	<u>\$239</u>

The Corporation extends performance and operating cost guarantees, which are beyond its normal warranty and service policies, for extended periods on some of its products, particularly commercial aircraft engines. Liability under such guarantees is contingent upon future product performance and durability. Management has no present reason to believe that such guarantees will result in material losses to the Corporation.

The Corporation is a potentially responsible party for environmental contamination at approximately 100 waste disposal sites, many of which relate to formerly-owned businesses. At the vast majority of these sites, there are additional parties who, based on the Corporation's evaluation of their financial viability, can be expected to contribute to the cleanup cost. Separately, the Corporation is currently involved in a number of actions at various sites to determine whether, and to what extent, remedial action is necessary to clean up hazardous wastes as required by federal and state law. As additional studies are performed and as remediation activities occur, new information may surface that could increase the ultimate costs of remediation.

The nature of the above matters makes it difficult to estimate the exact timing and ultimate amount of future environmental expendi-

tures (remedial and otherwise). In addition, the Corporation has instituted legal proceedings against its insurers asserting insurance coverage for remediation activities. These proceedings are expected to last several years.

The Corporation's Norden subsidiary is involved in a fixed-price development contract to design, develop and produce an advanced radar system for the Israeli government. The Corporation has recorded loss provisions to date based on existing information and estimates. As further progress on the contract is made, new information may arise that could increase the ultimate contract costs.

Like a number of defense contractors, the Corporation and certain of its units continue to be the subject of ongoing criminal investigations in connection with their activities as a government contractor, including the investigation announced in 1988, known as "Operation Ill Wind," which involves defense contractors and certain of their consultants, executives and employees.

As part of the latter investigation, the Corporation was one of a number of defense contractors that had premises searched at several of its units and received grand jury subpoenas. The criminal investigation has led to prosecutions of certain contractors and is continuing with respect to other contractors, including Pratt & Whitney and Norden. In connection with this investigation, three former Norden employees pleaded guilty to violations of federal law. In June 1991, a former consultant to the Corporation pleaded guilty to a number of charges, including a charge that, in April 1987, he converted government information concerning General Electric's proposal on the F404 engine procurement and conveyed that information to a Pratt & Whitney official.

If the Corporation were charged with wrongdoing as a result of any of these investigations, the Corporation or its business units could be suspended from eligibility for bidding on or for awards of new government contracts. Moreover, contracts found tainted by fraud could be voided, and the Corporation, if convicted, could be fined and debarred as a government contractor for a period generally not to exceed three years.

In June 1989, Sikorsky Aircraft submitted to the U.S. Government a voluntary disclosure report describing the conditions which gave rise to a \$75 million downward adjustment of progress payments in April 1988. Government representatives have been investigating the matter since that time. As a result, the Corporation believes it is probable that the U.S. Government will assert a claim for an amount in excess of the April 1988 progress payment adjustment. The Corporation has

accrued an estimate of its liability for this matter based on available information, but it is unable to predict the timing of the claim and any resultant loss exposure in excess of amounts accrued.

The Corporation also has other commitments and contingent liabilities related to legal proceedings and matters arising out of the normal course of business.

Management believes that resolution of these matters will not have a material adverse effect on the financial position of the Corporation.

Note 13

Business Segment Financial Data: Business segment information for the three years ended December 31, 1991, required by Financial Accounting Standard No. 14, appears in the Consolidated Summary of Business Segment Financial Data on pages 50 through 52.

Consolidated Summary of Business Segment Financial Data

United Technologies Corporation

Industry Segments

In Millions of Dollars

Years Ended December 31,

	1991	1990	1989
Revenues			
Power	\$ 7,171	\$ 7,297	\$ 7,055
Flight Systems	3,973	4,034	3,782
Building Systems	8,140	7,988	7,244
Automotive	2,084	2,621	1,932
Other	50	32	27
Corporate items and eliminations	(156)	(184)	(236)
Consolidated revenue	<u>\$21,262</u>	<u>\$21,788</u>	<u>\$19,804</u>
Operating Profits (Losses)			
Power	\$ (283)	\$ 1,010	\$ 940
Flight Systems	(213)	90	26
Building Systems	4	425	458
Automotive	2	150	156
Other	(13)	(13)	(9)
Eliminations	6	(9)	3
Operating profits (losses)	<u>(497)</u>	<u>1,653</u>	<u>1,574</u>
Financing revenues and other income, less other deductions	50	39	49
Interest expense	(339)	(362)	(330)
General corporate expenses	(105)	(39)	(33)
Consolidated income (loss) before income taxes	<u>\$ (891)</u>	<u>\$ 1,291</u>	<u>\$ 1,260</u>
Identifiable Assets			
Power	\$ 5,167	\$ 5,441	\$ 4,767
Flight Systems	2,246	2,456	2,400
Building Systems	4,446	4,142	3,643
Automotive	1,625	1,646	2,005
General corporate assets and other	2,501	2,233	1,783
Consolidated assets	<u>\$15,985</u>	<u>\$15,918</u>	<u>\$14,598</u>
Capital Expenditures			
Power	\$ 356	\$ 459	\$ 422
Flight Systems	186	173	159
Building Systems	331	316	244
Automotive	113	174	139
General corporate assets and other	62	78	59
Consolidated additions to fixed assets	<u>\$ 1,048</u>	<u>\$ 1,200</u>	<u>\$ 1,023</u>

See accompanying Notes to Consolidated Summary of Business Segment Financial Data

Consolidated Summary of Business Segment Financial Data continued

United Technologies Corporation

Geographic Areas

In Millions of Dollars	Years Ended December 31,		
	1991	1990	1989
Revenues			
United States operations	\$14,201	\$15,020	\$14,467
International operations:			
Europe	4,121	3,986	3,101
Other	3,908	3,854	3,389
Corporate items and eliminations	(968)	(1,072)	(1,153)
Consolidated revenue	\$21,262	\$21,788	\$19,804
Operating Profits (Losses)			
United States operations	\$ (1,034)	\$ 909	\$ 881
International operations:			
Europe	370	524	360
Other	184	349	375
Eliminations	(17)	(129)	(42)
Operating profits (losses)	(497)	1,653	1,574
Financing revenues and other income, less other deductions	50	39	49
Interest expense	(339)	(362)	(330)
General corporate expenses	(105)	(39)	(33)
Consolidated income (loss) before income taxes	\$ (891)	\$ 1,291	\$ 1,260
Identifiable Assets			
United States operations	\$ 8,959	\$ 9,598	\$ 9,256
International operations:			
Europe	2,392	2,256	1,925
Other	2,255	2,123	1,976
General corporate assets and other	2,379	1,941	1,441
Consolidated assets	\$15,985	\$15,918	\$14,598

See accompanying Notes to Consolidated Summary of Business Segment Financial Data

Notes to Consolidated Summary of Business Segment Financial Data

(A) The Corporation and its subsidiaries design, develop, manufacture and sell high-technology products, classified in four principal industry segments or lines of business in accordance with Financial Accounting Standard No. 14.

Power products are principally aircraft engines and substantial spare parts sold to a diversified customer base including international and domestic commercial airlines and aircraft leasing companies, aircraft manufacturers, regional and commuter airlines, and U.S. and non-U.S. governments. Modified aircraft engines and related equipment for electrical power generation and other applications are also included.

Flight Systems products include helicopters and spare parts, propellers, rocket motors, and fuel control, environmental, radar, cockpit and integrated display and other airborne and space systems sold primarily to U.S. and non-U.S. governments, aerospace and defense prime contractors, and airframe and jet engine manufacturers.

Building Systems products include air conditioning equipment, elevators and escalators, substantial service, maintenance and spare parts sold to a diversified international customer base in commercial and residential real estate development.

Automotive products include electrical wiring systems, electro-mechanical and hydraulic devices, electric motors, car and truck interior trim components, steering wheels, instrument panels and other products for the automotive industry principally in the United States and Canada.

Activities classified as "Other" consist of a variety of business and developmental activities, including the design and manufacture of microelectronics circuits.

(B) Revenue by industry segment and geographic area includes intersegment sales and transfers between geographic areas. Generally, such sales and transfers are made at prices approximating those which the selling or transferring entity is able to obtain on sales of similar products to unaffiliated customers.

Revenues include sales under prime contracts and subcontracts to the U.S. Government, for the most part Power and Flight Systems products, as follows:

In Millions of Dollars	1991	1990	1989
Power	\$1,944	\$2,018	\$2,339
Flight Systems	\$2,479	\$2,623	\$2,324

Revenues from United States operations include export sales of \$3,587 million in 1991, \$3,606 million in 1990 and \$3,307 million in 1989. Export sales to Europe were \$561 million, \$457 million and \$786 million of the 1991, 1990 and 1989 amounts, respectively. Export sales include direct sales to commercial customers outside the United States and sales to the U.S. Government, commercial and affiliated customers outside the United States.

(C) Identifiable assets are those which are specifically identified with the industry segments and geographic areas in which operations are conducted. General corporate assets consist principally of cash and short-term cash investments, customer financing subsidiaries, and investments in other companies.

Depreciation charges are as follows:

In Millions of Dollars	1991	1990	1989
Power	\$309	\$276	\$266
Flight Systems	\$145	\$127	\$121
Building Systems	\$166	\$155	\$128
Automotive	\$ 79	\$ 86	\$ 51

(D) Eliminations made in reconciling industry and geographic area data with the related consolidated amounts include intersegment sales and transfers between geographic areas, unrealized profits in inventory and similar items.

(E) The Summary of Business Segment Financial Data should be read in conjunction with the consolidated financial statements of the Corporation and notes thereto appearing elsewhere in this Annual Report.

(F) In 1991, the Corporation recorded a \$1.275 billion charge to operations for restructuring actions. Such charge, by business segment and in total, was as follows:

In Millions of Dollars	
Power	\$ 694
Flight Systems	136
Building Systems	323
Automotive	59
Other	16
	<u>1,228</u>
Financing revenues and other income, less other deductions	6
General corporate expenses	41
Total restructuring provision	<u>\$1,275</u>

Selected Quarterly Financial Data

United Technologies Corporation

In Millions of Dollars (except per share amounts)	Quarter Ended				For the Year
	March 31	June 30	September 30	December 31	
1991					
Sales	\$4,747	\$5,205	\$5,181	\$5,707	\$20,840
Financing revenues and other income, less other deductions	56	172	93	101	422
Gross profit	1,124	1,066	1,205	1,058	4,453
Net income (loss)	40	43	120	(1,224)	(1,021)
Earnings (loss) per share—primary	.25	.28	.90	(10.33)	(8.91)
—fully diluted	.25	.28	.85	(10.33)	(8.91)

1990					
Sales	\$4,731	\$5,602	\$5,213	\$5,896	\$21,442
Financing revenues and other income, less other deductions	71	87	133	55	346
Gross profit	1,242	1,380	1,400	1,405	5,427
Net income	134	208	240	169	751
Earnings per share—primary	1.05	1.64	1.90	1.32	5.91
—fully diluted	1.01	1.52	1.76	1.24	5.53

In the fourth quarter of 1991, the Corporation recorded charges related to restructuring actions and environmental remediation activities amounting to \$1,275 million and \$256 million, respectively.

Earnings (loss) per share for the full year in 1991 will not equal the total of the four quarters presented due to the loss in the fourth quarter of 1991.

Directors

Board of Directors

Howard H. Baker, Jr.

Partner,
Baker, Worthington, Crossley,
Stansberry & Woolf
(Attorneys)

Antonia Handler Chayes

Senior Consultant,
Endispute Incorporated
(Legal Consultation and
Alternative Dispute Resolution)

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Chief Executive Officer

George David

President and
Chief Operating Officer

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Corporation
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Charles W. Duncan, Jr.

(Private Investments)

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and Chief Executive Officer,
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(Diversified Manufacturer)
Of Counsel, Shipman &
Goodwin
(Attorneys)

Pehr G. Gyllenhammar

Executive Chairman,
AB Volvo
(Automotive, Aerospace,
Food and Finance)

Gerald D. Hines

Owner,
Gerald D. Hines Interests
Limited Partnership
(Real Estate Development)

Robert H. Malott

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Chairman of the Board and
Chief Executive Officer,
FMC Corporation
(Machinery and Chemicals)

Richard S. Smith

Retired Vice Chairman and
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(Metal Products)

Jacqueline G. Wexler

Retired President, National
Conference of Christians
and Jews

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Antonia Handler Chayes
T. Mitchell Ford
Robert H. Malott
Richard S. Smith

Audit Review Committee

Richard S. Smith, Chairman
Howard H. Baker, Jr.
Antonia Handler Chayes
Pehr G. Gyllenhammar
Robert H. Malott
Jacqueline G. Wexler

Committee on Compensation and Executive Development

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Space Propulsion,
Pratt & Whitney

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Commercial Engine Business,
Pratt & Whitney

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UT Automotive

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American Operations, Carrier

Eugene Buckley
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Sikorsky Aircraft

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Vice President, Human
Resources and Organization

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Senior Vice President and
Controller

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President and
Chief Executive Officer,
Pratt & Whitney Canada, Inc.

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Vice President, Human and
Natural Resource Protection

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Director, United Technologies
Research Center

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Executive Vice President,
Operations, Pratt & Whitney

John A. Cosentino, Jr.
President, North American
Operations, Otis

Martin Creydt
President,
United Technologies
Automotive - Europe

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Chairman and
Chief Executive Officer

George David
President and
Chief Operating Officer

Guy Fauconneau
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Carrier Transicold Division

Thomas J. Fay
Senior Vice President,
Communications

Frederick C. Flynn, Jr.
Vice President,
Treasurer

Pierre J. Fougeron
President, European and
Transcontinental Operations,
Otis

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President, North American
Operations, Carrier

Patrick J. Gnazzo
Vice President,
Government Contracts
and Compliance

F. Mark Granato
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Communications

J. Colin Green
Vice President

Frederick D. Hay
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Division, UT Automotive

Robert J. Hermann
Vice President,
Science and Technology

Karl J. Krapek
President and
Chief Executive Officer,
Carrier

Robert M. Kuhn
President,
Hamilton Standard

Jeffrey L. Kushner
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Jesse M. Liebman
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Corporate Planning

Frank W. McAbee, Jr.
Senior Vice President,
Environmental
and Business Practices

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Transcontinental Operations,
Carrier

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American Operations, Otis

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James F. Perretta
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Industrial Relations

Nicholas T. Pinchuk
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Secretary and Associate
General Counsel

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Corporate Purchasing

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International Corporation

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Operations, Otis

Karl M. Thomas
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Pratt & Whitney

William H. Trachsel
Vice President and
Deputy General Counsel

Jean-Pierre van Rooy
President, Otis

Arthur E. Wegner
Executive Vice President and
President, Aerospace/Defense

Jon E. Wohler
President,
Norden Systems

Irving B. Yoskowitz
Executive Vice President and
General Counsel

Shareowner Information

Corporate Office

United Technologies Building
Hartford, Connecticut 06101
Telephone (203) 728-7000

This annual report is sent to shareowners in advance of the proxy statement for the annual meeting to be held at 11:00 a.m., April 27, 1992, in Halifax, Nova Scotia. The proxy statement will be sent to holders of Common Stock on or about March 18, 1992, at which time proxies for the meeting will be requested.

Stock Listing

Common
New York, London, Paris, Frankfurt,
Geneva, Lausanne, Basel, Zurich,
Brussels and Amsterdam Stock
Exchanges

Ticker Symbol

Common: UTX

Transfer Agent

For the Common Stock:
First Chicago
Trust Company of New York
30 West Broadway
New York, New York 10007

Registrar

For the Common Stock:
First Chicago
Trust Company of New York
30 West Broadway
New York, New York 10007

Dividends

Dividends are usually declared the first month of each calendar quarter and are usually paid on the 10th day of March, June, September and December.

The dividend disbursing agent for the Common Stock is:
First Chicago
Trust Company of New York
30 West Broadway
New York, New York 10007
Dividend and Transfer inquiries:
(212) 791-6422

Consolidation of Accounts

Shareowners who receive multiple copies of the annual report and other financial documents because they have more than one UTC Common Stock account listing can help reduce the cost of printing and mailing these materials by having their accounts consolidated. Please advise:

First Chicago
Trust Company of New York
30 West Broadway
New York, New York 10007

Additional Information

Shareowners may obtain a copy of the 1991 United Technologies 10-K report filed with the Securities and Exchange Commission by writing to: Lawrence R. Purtell, Secretary
United Technologies Corporation
United Technologies Building
Hartford, Connecticut 06101

For additional information about United Technologies, please contact the Investor Relations Department at the above Corporate Office address.



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